SUBCOMMITTEE NO. 3

HEALTH, HUMAN SERVICES, LABOR and VETERANS AFFAIRS

HEALTH & HUMAN SERVICES OVERVIEW

Summary of Governor's Proposed 2007-08 Budget

Services provided through Medi-Cal; Healthy Families; CalWORKS; In-Home Supportive Services; Regional Centers; and other programs touch the lives of millions of Californians. Health and Human Services programs provide access to short- and longer-term services and supports that promote the health, well-being, and independent living of our state's most vulnerable children, adults, seniors, and families.

The budget for Health and Human Services proposes a total of $78.7 billion ($29.9 billion General Fund) in combined state and federal funds, including expenditures for about 33,380 state employees for 2007-08.

Key proposals include the following:

- Proposes significant changes to the California Work Opportunity and Responsibility to Kids (CalWORKs) Program resulting in a decrease of $464.7 million (General Fund) in 2007-08. The main components of these changes include restricting safety net grants, imposing full family sanctions, eliminating grants for children of CalWORKs ineligible parents, and suspending the CalWORKs cost-of-living adjustment.
- Proposes to cap the state's contributions to wage and benefit increases for In-Home Supportive Services (IHSS) resulting in a reduction of $14.1 million (General Fund).
- Proposes to cut Proposition 36, the Substance Abuse and Crime Prevention Act of 2000 (SACPA), funding by $60 million (50 percent of current funding). The budget would increase funding by $35 million to the Substance Abuse Offender Treatment Program (OTP).
- Provides an increase of $3.9 billion ($1.6 billion General Fund) for enrollment, caseload, and population driven program increases in health and human services program.
- Reflects the reorganization of the Department of Health Services into two separate departments—(1) the Department of Health Care Services, and (2) the Department of Public Health—as required by SB 162 (Ortiz), Statutes of 2006.
- Provides an increase of $53.9 million (General Fund) to implement Proposition 83—Jessica's Law—approved by voters in November 2006, within the Department of Mental Health.
- Proposes the elimination of the Integrated Services for Homeless Adults with Serious Mental Illness Program for a decrease of $54.9 million (General Fund) within the Department of Mental Health.

Each of these proposals is discussed in more detail below.

HEALTH

0530 California Health and Human Services Agency

Background. The California Health and Human Services Agency (CHHS Agency) administers the state's health, social services, rehabilitative and child support programs. The purview of the CHHS Agency includes: (1) the departments of Aging, Alcohol and Drugs, Child Support Services, Community Services and Development, Developmental Services, Health Services, Mental Health, Rehabilitation, and Social Services; (2) the Office of Health Insurance Portability & Accountability Act; (3) the Office of System Integration; (4) the Office of Statewide Health Planning and Development; (5) the Managed Risk Medical Insurance Board; (6) the Emergency Medical Services Authority; (7) Long Term Care Council; and (8) Health Care Quality Improvement and Cost Containment Commission.

The Office of Health Insurance Portability & Accountability Act (HIPAA) was created in 2001 and has statewide responsibility for implementation of the federal HIPAA. The office was established within the CHHS Agency to direct and monitor this process.

The Office of Systems Integration (OSI) within the CHHS Agency manages five major projects for the Department of Social Services (DSS) and one project for the Employment Development Department (EDD). Funding for OSI is supported entirely by reimbursements from the DSS and EDD budgets.

Summary of Funding. The budget proposes total expenditures of $186.7 million ($5.3 million General Fund) which reflects a net decrease of $18.1 million (total funds), primarily in the Office of System Integration.

An increase of $900,000 (federal grant funds) is proposed for the office of the Secretary to oversee and manage efforts to implement California's Real Choices Transition grant awarded by the federal government. The grant is a five-year $3 million award which will be used to build California's long-term care system infrastructure and to increase the capacity of the home and community-based services system.

Summary of Expenditures (dollars in thousands)	2006-07	2007-08	$ Change	% Change
Secretary for Health & Human Services	$3,520	$4,279	$759	21.6
Office of Health Insurance Portability	$3,755	$3,820	$65	1.7
Office of System Integration	$197,512	$178,591	-$18,921	9.6
Funding Source				
General Fund	$5,108	$5,294	$186	3.6
Federal Funds	$300	$900	$600	200
Reimbursements	$1,867	$1,905	$38	2.0
Office of Systems Integration Fund	$197,512	$178,591	-$18,921	9.6
Total, Health & Human Services	**$204,787**	**$186,690**	**-$18,097**	**8.8**

4100 State Council on Developmental Disabilities

Background. The State Council on Developmental Disabilities (Council) advocates and implements policies and practices that achieve inclusion in all aspects of community life for Californians with developmental disabilities and their families. The Council administers grants to community-based organizations that fund new and innovative community program projects to improve and enhance services for individuals with developmental disabilities and their families. In addition, the thirteen Local Area Boards provide a valuable service to consumers and families by providing individualized advocacy services and trainings, as well as conducting Life Quality Assessments.

Summary of Funding. The budget proposes total expenditures of $13.9 million (federal funds and reimbursements) for the Council which reflects an overall reduction of $487,000 (federal funds and reimbursements). The proposed adjustments are technical in nature.

Summary of Expenditures (dollars in thousands)	2006-07	2007-08	$ Change	% Change
State Council Planning & Administration	$1,738	$1,715	-$23	-1.3
Community Program Development	$1,987	$1,987	0	0
Local Area Boards	$10,715	$10,251	-$464	-4.3
Total Expenditures	**$14,440**	**$13,953**	**-$487**	**3.4**
Funding Source				
Federal Funds	$7,514	$7,216	-$298	3.9
Reimbursements	$6,926	$6,737	-$189	2.7
Total Funding	**$14,440**	**$13,953**	**-$487**	**3.4**

4120 Emergency Medical Services Authority

Background. The overall responsibilities and goals of the Emergency Medical Services Authority (EMS Authority) are to: (1) assess statewide needs, effectiveness, and coordination of emergency medical service systems; (2) review and approve local emergency medical service plans; (3) coordinate medical and hospital disaster preparedness and response; (4) establish standards for the education, training and licensing of specified emergency medical care personnel; (5) establish standards for designating and monitoring poison control centers; (6) license paramedics and conduct disciplinary investigations, as necessary; (7) develop standards for pediatric first aid and CPR training programs for child care providers; and (8) develop standards for emergency medical dispatcher training for the "911" emergency telephone system.

Summary of Funding. The budget proposes total expenditures of $25 million ($12.5 million General Fund) for the EMS Authority. This reflects a net decrease of $18.2 million ($16.6 million General Fund) primarily due to the elimination of one-time only funds of $17.9 million ($16.6 million General Fund) which were used to purchase three Mobile Hospitals in 2006-07.

Summary of Expenditures (dollars in thousands)	2006-07	2007-08	$ Change	% Change
Program Source				
Emergency Medical Services	**$43,155**	**$24,999**	**-$18,156**	42.0
Funding Source				
General Fund	$29,134	$12,550	-$16,584	-56.9
Federal Funds	$2,754	$2,442	-$312	-11.3
Reimbursements	$9,368	$8,167	-$1,201	-12.8
Other Funds	$1,899	$1,840	-$59	-3.1
Total Expenditures	**$43,155**	**$24,999**	**-$18,156**	**-42.0**

4250 California Children and Families Commission

Background. The California Children and Families First Act of 1998 created this commission effective December 1998. The Commission consists of nine members—seven voting members and two ex-officio members.

The commission is responsible for the implementation of comprehensive and integrated solutions in order to provide information and services promoting, supporting, and improving the early childhood development of children through the age of five. These solutions are provided either directly by the commission or through the efforts of the local county commissions.

Funding is provided through a 50-cent-per-package surtax on cigarettes, as of January 1, 1999, and an equivalent surtax on other tobacco-related products, as of July 1, 1999. These revenues are deposited in the California Children and Families Trust Fund. As required by law, a portion of these revenues are transferred to the Department of Health Services to backfill for specified decreases in Proposition 99 funds (i.e., Cigarette and Tobacco Product Surtax Funds).

Summary of Funding. The budget proposes total expenditures of $750.4 million (Special Trust funds) for an increase of $7.2 million over the revised current year.

The California Children and Families Commission funds must be used to supplement, not supplant, existing funds. The funds are distributed across accounts as required by Proposition 10. The funds are continuously appropriated pursuant to Section 30131.3 of the Revenue and Taxation Code and are not subject to an annual appropriation through the Budget Act.

The commission began funding initiatives using the various accounts in January 2000. These projects address recognized needs related to children's health care, child care and development, and family literacy.

Summary of Expenditures (dollars in thousands)	2006-07	2007-08	$ Change	% Change
Administrative Functions	$17,719	$18,169	$990	5.6
Local Assistance—Counties	$725,577	$732,280	$6,703	1.0
Funding Source				
Counties Children & Families Account	$478,923	$481,879	$2,956	0.6
Mass Media Communications	$52,933	$53,024	$91	0.2
Education Account	$81,602	$82,540	$938	1.1
Child Care Account	$44,197	$44,214	$17	.04
Research & Development Account	$47,708	$47,625	-$83	-0.2
Administration Account	$17,719	$18,169	$450	2.5
Unallocated Account	$20,214	$22,998	$2,784	13.8
Total Expenditures	**$743,296**	**$750,449**	**$7,153**	**1.0**

4260 Department of Health Care Services

Background. Effective July 1, 2007, pursuant to SB 162 (Chapter 241, Statutes of 2006), specific programs and public health responsibilities currently vested with the Department of Health Services will transfer to the newly established Department of Public Health, and the Department of Health Services will be renamed the Department of Health Care Services (DHCS). The creation of the two new departments is budget neutral, as required by the legislation; however, it is not cost neutral as discussed below under the Department of Public Health.

The DHCS finances and administers several individual health care service delivery programs, including the Medi-Cal Program, Children's Medical Services, Office of Long-Term Care, Primary Care Clinic Program, and Rural Health Program.

Summary of Funding. The budget proposes expenditures of $38.1 billion ($14.9 billion General Fund) for 2007-08. Of the total amount, $37.7 billion ($14.7 billion General Fund) is for local assistance and $418.8 million ($151.7 million General Fund) is for state support. State support expenditures are spread across the three program areas as noted in the chart below. Proposed funding sources are summarized below.

Summary of Expenditures (dollars in thousands)	2007-08
Medi-Cal Program	$37,735,433
Children's Medical Services	$313,998
Primary and Rural Health	$57,814
Total Expenditures	**$38,107,245**
Funding Source	
General Fund	$14,902,710
Federal Funds	$21,073,001
Medi-Cal Inpatient Payment Adjustment Fund	$579,726
Health Care Support Fund	$741,912
Demonstration Disproportionate Share Hospital Fund	$452,855
Children's Medical Services Rebate Fund	$6,500
Reimbursements	$226,605
Special Deposit Fund	$24,083
Private Hospital Supplemental Fund	$28,068
Distressed Hospital Fund	$14,606
Nondesignated Public Hospital Supplemental Fund	$49
Hospital Services Account, Tobacco Product Surtax	$18,000
Unallocated Account, Tobacco Product Surtax	$37,926
Other Special Funds	$1,204
Total Expenditures	**$38,107,245**

Highlights for the Medi-Cal Program

Summary of Local Assistance Funding and Enrollment. The Governor's budget proposes total expenditures of $37.4 billion ($14.6 billion General Fund) which reflects an increase of $1.9 billion ($979.8 million General Fund) over the revised current-year. The *net* General Fund increase primarily reflects: (1) increases in caseload and utilization for aged, blind and disabled individuals; (2) increases in federal Medicare premiums which are paid by Medi-Cal; (3) rate adjustments for various long-term care facilities; and (4) increases in caseload in the Senior Care Action Network.

California continues to have one of the lowest average cost-per-enrollee rates in the nation at $5,626 per enrollee, versus a national average of about $7,220 per enrollee or 28 percent higher than California.

Medi-Cal provides health insurance coverage to about 18 percent of Californians. Average monthly caseload is anticipated to increase in 2007-08 by about 107,400 people, or 1.6 percent, for a total of 6.7 million eligibles.

Of the total Medi-Cal eligibles, 3.4 million or over 50 percent are deemed to be in the medically needy category which is mainly comprised of low-income working families, and individuals who are aged, blind or disabled. About 38 percent, or 2.5 million people, are categorically-linked to Medi-Cal through enrollment in public cash grant assistance programs (i.e., SSI/SSP or CalWORKs).

Almost all Medi-Cal eligibles fall into four broad categories of people: (1) aged, blind or disabled; (2) families with children; (3) children only; and (4) pregnant women.

Generally, Medi-Cal eligibility is based upon family relationship, family income level, asset limits, age, citizenship, and California residency status. Other eligibility factors can include medical condition (such as pregnancy or medical emergency), share-of-cost payments (i.e., spending down to eligibility), and related factors that are germane to a particular eligibility category.

Summary of Governor's Reductions and Augmentations for the Medi-Cal Program

- **Reduces the Growth Capitation for Freestanding Nursing Homes and Subacute Facilities.** A reduction of $28.8 million ($14.4 million General Fund) is proposed by limiting the maximum annual rate increase or "growth cap" to 4.5 percent, instead of the statutorily required 5.5 percent as contained in AB 1629, Statutes of 2004. The Administration is proposing trailer bill language for this purpose, as well as a sunset extension of the rate methodology. Presently, the existing rate methodology sunsets as of July 31, 2008.

- **Proposed Reduction to the Rates Paid to Pharmacists for Dispensing Drugs under Medi-Cal.** A reduction of $88 million ($44 million General Fund) is assumed by changing the existing payment structure for pharmacy reimbursement from the "Average Wholesale Price" (AWP) to an "Average Manufacturer Price" (AMP). The pharmacy reimbursement consists of two components—a drug ingredient cost and a dispensing fee. The proposed change would reduce the amount paid for drug ingredient costs.

The DHS states that changes in the federal Deficit Reduction Act of 2005 make the proposed reduction viable for the state since certain drug cost information will now be readily available for comparison purposes which is consistent with federal requirements.

At this time, the Administration has not proposed any changes to the pharmacist's dispensing fee. However, the DHCS intends to conduct a survey of the Medi-Cal pharmacy reimbursement rates to discern if an adjustment is needed. It should be noted that the Legislature provided $600,000 ($300,000 General Fund) in the 2006 Budget Bill for the DHCS to conduct said study but it was vetoed by the Governor. It is likely that this survey will reflect a need to increase the dispensing fees paid under the Medi-Cal Program. May Revision adjustments to this issue are anticipated.

- **Rate Increases for "Level A" Nursing Facilities and Other Long-Term Care Facilities.** An increase of $119.9 million ($60 million General Fund) is provided for rate increases to long-term care facilities *not* governed by the rate methodology contained in AB 1629, Statutes of 2004. Specifically, this rate adjustment applies to "Level A" Nursing Facilities, Intermediate Care Facilities for the Developmentally Disabled (ICF-DD), Distinct-Part Nursing Facilities, Subacute facilities and Rural Swing Beds. Each facility type receives a different percentage increase, based upon their peer grouping and cost reports.

- **Reflects Restoration of Provider Payment for Medi-Cal Managed Care Plans.** The budget contains an increase of $133 million ($66.5 million General Fund) which reflects the budget year cost of restoring the actuarial equivalent amount of five percent, effective January 1, 2007, for health plans participating in the Medi-Cal Managed Care Program. This is consistent with Assembly Bill 1762, Statutes of 2003, which required a temporary five percent reduction for three years (which sunset as of December 31, 2006). The expenditures for this adjustment are shown in the table below.

Medi-Cal Managed Care Type of Health Plan	**2006-07 Adjustment (Total Funds)**	**2007-08 Adjustment (Total Funds)**
Two Plan Model	$45 million	$90 million
Geographic Managed Care	$6.6 million	$13.3 million
County Organized Healthcare Systems	$14.5 million	$29 million
Program of All-Inclusive Care for the Elderly (PACE)	$20,000	$45,000
Senior Care Action Network	$45,000	$139,000
Kaiser Prepaid Health Plan	$50,000	$102,000
AIDS Healthcare Foundation	$200,000	$400,000
TOTALS	**$66.41 million**	**$133 million**

- **Several Key Reports due to the Legislature Regarding Rates and Performance Measures for the Medi-Cal Program.** The Legislature, through the budget process, has requested the DHCS to provide certain information regarding the establishment of rates within both the Fee-for-Service Program and Managed Care Program, as well as the establishment of performance measures and quality of health care measures within the overall program. First, as part of the Administration's Medi-Cal redesign proposal in 2005, the DHCS had stated they would provide the Legislature with an analysis of designing and implementing performance measures and quality of health care measures regarding the provision of services to age, blind and disabled individuals enrolled in Medi-Cal Managed Care. This information has yet to be provided.

Second, the DHCS contracted with the Mercer corporation to conduct an analysis of the rate methodology used in Medi-Cal Managed Care and to offer suggestions for improvement. This report, completed in August 2006, has not yet been provided to the Legislature.

Third, the Budget Act of 2006 requires the DHCS to provide the Legislature with an analysis that compares Medi-Cal Fee-for-Service rates with federal Medicare rates by no later than March 15, 2007. A total of $600,000 ($300,000 General Fund) was provided for the DHCS to hire a contractor for this purpose. It is anticipated that the report will be completed and provided to the Legislature within the specified timeframe.

- **Proposed Changes to the Medi-Cal Managed Care Enrollment Packet.** The Administration is proposing trailer bill legislation to modify existing statute regarding the contents of the enrollment package which is sent to Medi-Cal enrollees regarding their health plan choices. Specifically, the Administration is proposing to change the package to have it list providers located near the individual’s home or workplace. The budget assumes savings of $2 million ($1 million General Fund) from this action.

- **Implements a Rate Increase for Program of All-Inclusive Care for the Elderly (PACE).** As directed by the Budget Act of 2006, and accompanying trailer bill legislation, the budget provides an increase of $4.4 million ($2.2 million General Fund) to establish capitation rates for PACE plans at no less than 90 percent of the Fee-for-Service equivalent, including the DHCS’ cost of administration.

- **Implementation of Senate Bill 437 (Escutia), Statutes of 2006—Two Pilot Projects for Self-Certification in Medi-Cal.** An increase of $20.7 million ($10.3 million General Fund) is provided to fund caseload increases anticipated to result from the implementation of two pilot projects for the self-certification of Medi-Cal enrollees. Specifically, the legislation establishes a process that allows both applicants and enrollees to self-certify the amount and nature of assets and income without the need to submit documentation. Based on specified criteria, ten counties are eligible to conduct a pilot and two of them will be selected by the DHCS.

  The Medi-Cal local assistance budget also includes: (1) an increase of $6.9 million ($3.5 million General Fund) for county administration to process the self-certification applications, including intake and continuing case costs; and (2) an increase of $525,000 ($263,000 General Fund) for a contractor to design an evaluation process for the self-certification pilot projects.

- **Implementation of Senate Bill 437 (Escutia), Statutes of 2006—Presumptive Programs and WIC Gateway.** The budget provides an increase of $418,000 ($175,000 General Fund) for a feasibility study report (FSR) of technology requirements to determine the amount and types of systems resources needed to implement provisions contained in SB 437, Statutes of 2006. Specifically, the legislation requires the Administration to streamline and enhance the application process used within the Medi-Cal Program and Healthy Families Program. These enhancements involve electronic interactions with the Women, Infants and Children

Supplemental Food (WIC) Program, and the establishment of two new presumptive eligibility programs.

- **Continues Efforts From Last Year to Increase Medi-Cal and Healthy Families Program Enrollment for Children via Outreach Activities.** The budget proposes to continue several strategies to improve the enrollment of uninsured, eligible children into the Medi-Cal and Healthy Families Program. The Medi-Cal Program contains total expenditures of $84.8 million ($39.9 million General Fund) which reflects an overall increase of $37.6 million ($18 million General Fund) for these various strategies and resulting caseload. In addition, the Healthy Families Program contains a separate appropriation for this purpose. The following key adjustments are for the Medi-Cal Program:

  ✓ A total of $29.7 million (total funds) for the DHS to allocate to selected counties to partner with public and private community organizations for outreach, streamlined enrollment and related measures. This reflects an increase of $10 million ($4.4 million General Fund) over the current year.

  ✓ A total of $52.1 million ($25.3 million General Fund) to fund Medi-Cal caseload increases and county administrative processing for enrollment which are attributable to the simplified redetermination form implemented in 2006. This reflects an increase of $26.9 million ($13.4 million General Fund) over the current year.

- **Federal Government Denies Funds for Certain Family PACT Waiver Services.** An increase of $2.5 million (General Fund) is provided to fund certain services that have historically been part of the state's Family PACT Waiver Program which were recently denied federal funding approval by the Center on Medicare and Medi-Cal (CMS). Specifically, these services include mammography, Hepatitis B vaccines, five medical procedures related to complications of particular contraceptive methods, and diagnostic testing regarding cancer. These medically necessary services will now be fully General Fund supported.

  California's Family PACT Waiver has been in existence since 1997; however, the Waiver must be renewed by the federal CMS on a regular basis in order to maintain the receipt of federal funding. It should be noted that our existing Waiver expired in November 2004 and the federal CMS has been issuing temporary extensions until a new agreement can be achieved. However, pending new federal requirements may place a portion of the existing federal funding for the Waiver at further risk, which could result in additional General Fund expenditures. More will be known on this issue in the spring.

- **Funds for Cervical Cancer Prevention—Human Papillomavirus Vaccine.** A total of $11.3 million ($5.6 million General Fund) is provided to fund the delivery of this vaccine to applicable women enrolled in the Medi-Cal Program. The vaccine requires three doses to be effective and will cost $441 per Medi-Cal enrollee for the full regimen. The federal Food and Drug Administration has approved this vaccine for cervical cancer prevention.

- **Adjustments to Adult Day Health Care (ADHC) for Local Assistance**. A decrease of $5 million ($2.5 million General Fund) is reflected to account for changes enacted in Senate Bill 1755 (Chesbro), Statutes of 2006, regarding a tightening of the medical necessity criteria used for enrollment into an ADHC facility. This reduction assumes a January 1, 2008 implementation date.

The DHCS is also seeking an increase of $3.9 million ($1.8 million General Fund) to fund 30.5 positions for various functions related to proposed changes to the ADHC Program. In addition, the Department of Public Health is requesting an increase of $100,000 ($49,000 General Fund) to support one position for this purpose.

- **Provides Cost of Doing Business for County Administration.** An increase of $36.9 million ($18.4 million General Fund) is provided to adjust the baseline amount provided to county social services departments to conduct Medi-Cal eligibility processing for the state.

- **Provides Funding to Commence Implementation of AB 2911 (Nunez), Statutes of 2006.** A total of $8.8 million (General Fund) is proposed to fund 16 positions to commence implementation of the California Discount Prescription Drug Program. Under this program, the DHCS will negotiate with drug manufacturers and pharmacies for rebates and discounts to reduce prescription drug prices for uninsured and underinsured low to moderate income Californians. The DHCS notes that additional state support funding will be required next year as implementation proceeds.

- **Begin Replacement of Medi-Cal Claims Processing and Policy Management Information System.** An increase of $2.5 million ($628,000 General Fund) is proposed to fund 22 positions to begin preliminary work necessary to procure a new Medi-Cal management information system (MMIS) and a Fiscal Intermediary contract. This system is used to process all Fee-for-Service Medi-Cal payments and is used to conduct related information management activities associated with core program functions. This system, and the associated Fiscal Intermediary contract (presently managed by Electronic Data Systems—EDS), is one of the largest and most complex systems utilized by the state. The federal CMS will be providing the state with certain federal specifications that the system will be required to meet as well. This project is a multi-year effort and will require a considerable investment of resources.

  In addition, an increase of $196,000 ($40,000 General Fund) to support 2 positions for this purpose is requested within the Department of Public Health.

- **Augmentation for Disease Management Pilot Projects.** Total funds of $8.6 million ($4.3 million General Fund) are provided for the DHCS to proceed with two pilot projects and an assessment of the program. This reflects an increase of $4.8 million ($2.4 million General Fund) over the current-year. Though these projects have been delayed for several years, the DHCS contends that implementation will commence shortly.

- **Assumes a January 1, 2008 Implementation of Coordinated Care Management Pilot Projects.** The budget provides an augmentation of $2.7 million ($1.4 million General Fund) for the DHCS to enter into one or more contracts to implement a coordinated care management demonstration project for medically involved Medi-Cal enrollees, including seniors and persons with disabilities who have chronic conditions or who may be near the end of life. The Budget Act of 2006 provided funding for the DHCS to establish and commence with these projects.

- **Provides Increased Federal Funds to Reflect Implementation of Assembly Bill 959 (Frommer), Statutes of 2006.** The budget increases by $127.5 million (federal funds) to reflect the inclusion of freestanding outpatient clinics and state-operated Veteran's Homes to the current Medi-Cal outpatient supplemental program. Under this program, clinics that are enrolled as Medi-Cal providers and are owned or operated by the state, city, county, city and county, the University of California system, or health care districts are eligible to receive supplemental payments. The supplemental payment, when combined with the amount received from other sources of reimbursement, cannot exceed 100 percent of the costs of providing services to Medi-Cal enrollees.

- **Automation of Medi-Cal Provider Enrollment.** The budget provides $220,000 ($110,000 General Fund) to initiate development of a Medi-Cal provider enrollment and document tracking system. This system would be used to streamline the provider enrollment process, thereby shortening the time it takes to enroll providers in Medi-Cal.

- **State Staff for Aged Drug Rebates.** The budget proposes to convert 5.5 existing limited-term positions to permanent status and to extend 5.5 limited-term positions for one-year in order to resolve the aged drug rebate backlog. An increase of $1.1 million ($542,000 General Fund) is proposed for this purpose. The budget assumes a savings of $8 million ($4 million General Fund) within the Medi-Cal Program due to the collection of rebate funds.

- **More Staff Requested for Managing the Hospital Financing Waiver.** An increase of $1.1 million ($561,000 General Fund) is requested to support 11 positions to provide increased assistance in managing the ongoing administration of this complex Waiver.

- **More Staff Requested for Continued Implementation of the Health Insurance Portability and Accountability Act (HIPAA).** An increase of $2.3 million ($565,000 General Fund) is proposed to support 19 positions to continue various activities to implement federal HIPPA requirements.

- **More Staff for Implementing Federal Deficit Reduction Act (DRA) of 2005--Citizenship and Asset Eligibility Requirements.** The budget proposes an increase of $571,000 ($285,000 General Fund) to support 5 positions regarding the implementation of federal DRA requirements affecting the Medi-Cal Program specific to eligibility and access to services.

- **More Staff for Monitoring County Performance Standards.** An increase of $195,000 ($97,000 General Fund) to support two positions is requested to conduct monitoring activities associated with county administration of Medi-Cal eligibility processing and county performance standards regarding this processing. Currently, counties must meet specified performance standards or be subject to a corrective action plan and a 2 percent recoupment of funds from the state. The DHCS states that they will be increasing these performance standards from the current 90 percent compliance rate to a 95 percent compliance rate. This would require trailer bill legislation to enact.

Highlights for Children's Medical Services & Primary Care and Rural Health

- **California Children's Services (CCS) Program.** A total of $237.7 million ($58.5 million General Fund) is budgeted for children enrolled in the CCS Program. This reflects an increase of $25.7 million ($7 million General Fund) which is primarily due to increased caseload identified through the Healthy Families Program. Children enrolled in the Healthy Families Program who have a CCS-eligible medical condition receive medical treatment services through CCS providers.

- **Expansion of the Newborn Hearing Screening Program.** An increase of $1.9 million ($1.5 million General Fund) is provided to expand the Newborn Hearing Screening Program to all infants in California by requiring all hospitals with licensed perinatal services to offer hearing screening services and by making available hearing screening services to newborns who are not delivered in hospitals. Of the proposed increase, $1.5 million is to contract with Hearing Coordination Centers to provide technical assistance and consultation to 100 new hospitals to familiarize them with the existing program, including the inpatient screening process. The remaining amount is for various activities, including tracking and monitoring all participating infants.

  The Medi-Cal Program includes an increase of $1.3 million ($653,000 General Fund) to pay for screens provided to infants enrolled in Medi-Cal.

- **Child Health Disability Prevention (CHDP) Program.** A total of $3 million (General Fund) is budgeted for the CHDP Program to provide vaccinations and health screenings for children not otherwise eligible for the Medi-Cal or Healthy Families programs. No policy changes are proposed.

- **Genetically Handicapped Persons Program (GHPP).** A total of $49.3 million ($25.1 million General Fund) is provided for the GHPP which reflects a decrease of $1.9 million (decrease of $2.7 million General Fund) as compared to the revised current-year. Most of this reduction is attributable to the DHCS finally implementing a blood factor drug rebate program after four years of difficulties.

- **Funds for Implementation of Hospice and Pediatric Palliative Care as Required in Assembly Bill 1745 (Chan), Statutes of 2006.** An increase of $408,000 ($174,000 General Fund) is provided to support 3 positions to begin implementation of this program to provide hospice and palliative care to children.

- **Proposes Elimination of State Support for County Medical Services Program.** The Governor proposes to permanently eliminate the $20.2 million (General Fund) appropriation for the County Medical Services Program (CMSP) through proposed trailer bill legislation. This $20.2 million has been suspended for the past several years since the CMSP has had reserve funds available.

4265 Department of Public Health

Background. Effective July 1, 2007, pursuant to Chapter 241, Statutes of 2006, specific programs and public health responsibilities currently vested with the Department of Health Services will transfer to the newly established Department of Public Health (DPH).

The mission of the DPH is to protect and improve the health of Californians primarily through population-based programs, including the: (1) prevention and control of chronic diseases; (2) investigation, prevention and control of infectious disease; (3) prevention and control of environmental and occupational diseases; (4) regulation of public drinking water; (5) regulation of medical waste handling and disposal; (6) regulation of food safety; (7) regulation of medical device approval; (8) regulation of low level radioactive waste disposal; and (9) coordination of family-centered preventive and primary care services to low-income women, infants, children and families. In addition, the DPH disburses and monitors funds allocated to counties for emergency preparedness functions and for certain health related services.

Summary of Funding. The budget proposes expenditures of $3 billion ($394.2 million General Fund) for the DPH. Of this total amount, $716 million ($116.5 million General Fund) is for state support and is used to fund 3,284 positions. The remaining $2.3 billion ($278 million General Fund) is for local assistance.

Summary of Expenditures (dollars in thousands)	2007-08
Public Health Emergency Preparedness	**$149,699**
Public and Environmental Health	**$2,649,758**
Chronic Disease Prevention and Health Promotion	$290,341
Infectious Disease	$536,170
Family Health	$1,489,654
Health Information and Strategic Planning	$32,377
County Health Services	$70,413
Environmental Health	$230,803
Licensing and Certification Program	**$210,766**
Licensing and Certification of Facilities	$202,673
Laboratory Field Services	$8,093
Total Expenditures	**$3,010,223**
Funding Source	
General Fund	$394,172
Federal Funds	$1,468,510
Genetic Disease Testing Fund	$118,856
Licensing and Certification Fund	$77,895
WIC Manufacturer Rebate Fund	$297,401
AIDS Drug Assistance Program Rebate Fund	$91,890
Water Security, Clean Drinking Water, Beach Protection Fund	$111,233
Safe Drinking Water Account	$11,278

Drinking Water Treatment and Research Fund	$5,054
Childhood Lead Poisoning Prevention Fund	$20,810
Birth Defects Monitoring Fund	$4,174
Radiation Control Fund	$22,470
Food Safety Fund	$6,328
Reimbursements	$141,666
Other Special Funds	$238,486
Total Expenditures	**$3,010,223**

- **New Department and Organizational Structure**. Chapter 241, Statutes of 2006, establishes a Department of Public Health (DPH) and statutorily transfers responsibilities from the Department of Health Services effective July 1, 2007. The legislation requires that the reorganization from one department to two departments be budget neutral, resulting in no increases to the General Fund or other state funds.

  The core functions of the new DPH will include: (1) Emergency Preparedness; (2) Communicable Disease Control; (3) Chronic Disease and Injury Prevention; (4) Laboratory Sciences; (5) Family Health Programs; (6) Environmental and Occupational Health; (6) Drinking Water and Environmental Management; (7) Food, Drug and Radiation Safety; (8) Health Statistics; (9) Health Facility Licensure and Certification; (10) Office of Multicultural Health; and (11) Office of Binational Border Health.

  Costs associated with the reorganization are being absorbed within existing budgets (both the DPH as well as the revamped Department of Health Care Services). The Administration says it is their intent to have expenditures from the spilt absorbed equally by the two departments. At this time, it is anticipated that about $6.5 million (total funds) in initial costs are associated with the reorganization.

  According to the Administration, the reorganization will generate costs in three major areas: (1) space, equipment and consulting; (2) information technology hardware; and (3) personnel. Space and equipment costs are estimated to be $900,000 if moving costs to relocate employees can be kept to a minimum. A “change management” consultant has been hired at a cost of $100,000 to assist the Administration in the reorganization. The estimated cost of the information technology transition is about $500,000 annually for three years.

  The reorganization will require 57 positions to be redirected for key management and administrative functions in the DPH and the Department of Health Care Services. The cost for the 57 management and administrative positions is about $5 million (total funds). These redirected positions will be used for the: (1) Director of DPH and one of the Chief Deputies; (2) Deputy Directors and support staff for the Office of Legal Services, Office of Civil Rights, Office of Public Affairs, Office of Legislative Affairs, Administration Division, and Information Technology Services Division; and (3) management staff for Internal Audits, Financial Management, Personnel Management, and Information Technology Services.

- **Governor Substantially Increases Fees Paid by Health Care Providers for Licensing and Certification (L&C) Purposes.** The Administration proposes to substantially increase the fees paid by health care providers to be licensed and certified by the DPH for proposed savings of $7.2 million (General Fund) in 2007-08. This proposal is contrary to the agreement crafted through the Budget Act of 2006 which provided some General Fund support to the L&C division in an effort to provide a three-year transition to a fully fee supported program.

  A key aspect of this agreement last year was the acknowledgement that the existing L&C division within the DPH was woefully under staffed and not meeting standards for ensuring patient safety and medical quality, including not responding to complaints at nursing homes on a timely basis. As such, about 150 positions were added to the division to commence with numerous improvements. The L&C division is making considerable progress, but it is acknowledged that more work needs to be done, as referenced by the additional budget requests noted below.

  The L&C division is in transition for making improvements but many health care providers who must rely on the DPH to operate their businesses are not receiving a service that meets their needs. For example, legislation enacted several years ago to streamline the licensing and certification process for California's 600 community clinics has not been fully implemented. Other examples exist as well. Therefore, to have the program fully fee supported places an undue burden on many health care providers.

  It is not yet known how high the proposed fee increase will be since the Administration needs to provide the Legislature with a full report on the proposed increases by February 1. However, preliminary estimates regarding a portion of the proposed fee increases are as follows:

Type of Facility (Estimate—impact not fully known)	**Existing L&C Fee**	**Governor's Proposed Fee**	**Governor's Increase**
Community & Primary Care Clinics	$600	$2,440	$1,840 306 percent increase
Hospice Care	$1,000	$2,880	$1,880 188 percent increase
Psychology Clinics	$600	$2,440	$1,840 306 percent increase
Surgical Clinics	$1,500	$2,440	$940 63 percent increase
Rehabilitation Clinics	$500	$2,440	$1,980 388 percent increase
Kidney Dialysis Clinics	$1,500	$2,440	$940 63 percent increase
Skilled Nursing Facilities	$203 per bed	$346 per bed	$143 per bed 70 percent increase
Intermediate Care Facility for Developmentally Disabled—H and N	$1,000 per facility	$686 per bed (usually 6 beds)	$3,116 per facility 311 percent increase
Intermediate Care Facility for Developmentally Disabled	$592 per facility	$686 per bed (usually 6 beds)	$3,524 per facility 595 percent increase

- **Implementation of Senate Bill 1312 (Alquist), Statutes of 2006.** An increase of $2.5 million (L&C Fund) to support 16 positions is proposed to implement this legislation which requires surveys and inspections for compliance with state standards to the extent that state standards exceed federal law, and provide greater protection to residents of long-term care facilities. In addition, the Administration is proposing trailer bill language to limit the scope of the inspections. This language has not yet been received.

- **Implementation of Senate Bill 1301 (Alquist), Statutes of 2006.** An increase of $7.2 million (L&C Fund) to support 43 positions is proposed to implement this legislation related to the reporting of and follow-up on adverse events in hospitals (27 specific types of events). This increase also includes $315,000 to modify the L&C website in order to display the outcome of inspections, investigations, compliance histories and related items in health care facilities.

- **Request for Legal Staff in Support of Increased Licensing and Certification (L&C) Enforcement.** The DPH is seeking an increase of $711,000 ($355,000 L&C Fund) to support 6.5 positions to handle anticipated increased workload associated with enforcement and disciplinary actions against licensees who are found to be in violation of L&C standards.

- **Implementation of Senate Bill 739 (Speier), Statutes of 2006—Healthcare Associated Infections Program.** An increase of $2 million ($1.6 million General Fund and $400,000 Licensing and Certification Fund) is proposed to support 14 positions and various contracts to implement SB 739 which requires the establishment of a Healthcare Associated Infection Program. This legislation requires the DPH to implement a healthcare associated infection surveillance and prevention program, investigate the development of electronic reporting, adopt new administrative regulations and evaluate the compliance of facilities with policies and procedures to prevent healthcare associated infections. In addition, the DPH must appoint an Advisory Committee that will make recommendations for the prevention and reporting of these infections.

- **Implementation of Senate Bill 1379 (Perata), Statutes of 2006—CA Environmental Contaminant Biomonitoring Program.** A total of $1.5 million (General Fund) is proposed to begin the planning process that will develop this comprehensive Biomonitoring Program. Of this total amount, $1.2 million (General Fund) is proposed for the DPH. The DPH funds are to support three positions at the DPH and to contract with the federal Centers for Disease (CDC) at a cost of $847,000. The federal CDC is to assist in designing the sampling program and study architecture necessary to provide a strong scientific foundation for the program.

- **Proposed Reduction of $5.6 million to HIV Education and Prevention Services.** The Governor proposes to reduce by $5.6 million (General Fund) the amount provided to local health jurisdictions to provide education and prevention services focused on mitigating the spread of HIV/AIDS. Total expenditures for these services are proposed to be $32.2 million ($24.9 million General Fund).

- **AIDS Drug Assistance Program Funded at Current Level**. The Governor proposes no adjustments to the AIDS Drug Assistance Program for 2007-08. Existing funding for this program is $299.4 million ($107.6 million General Fund, $100.9 million federal grant funds and $90.8 million AIDS Drug Rebate Fund) to serve about 25,000 clients.

- **Local Assistance Funding for Name-Based HIV Reporting Activities.** An increase of $2 million (General Fund) is proposed to provide an accelerated HIV reporting effort in the 62 local health jurisdictions as directed by SB 699 (Soto), Statutes of 2006. The Administration states it is their intent to provide this additional funding for three fiscal years.

  According to the DPH, the $2 million would be allocated to the top 11 counties with the highest number of reported non-name code HIV cases and cumulative AIDS cases in the HIV/AIDS case registry. The funds would be provided as an augmentation to each of these counties' baseline surveillance budget. Surveillance funding for the remaining 47 counties would remain the same.

  SB 699 makes HIV infection reportable by name and requires health care providers and laboratories to provide this information to local health jurisdictions. It also requires local health jurisdictions to report unduplicated HIV cases to the DPH. Previously, HIV infections were reported to the state using a non-name code instead of a patient's name.

  SB 699 was the result of changes at the federal level which would affect California's receipt of federal Ryan White CARE Act funds. Specifically, the federal government declared that HIV data would not be accepted unless it was reported by name. Starting in federal fiscal year 2007, HIV counts in addition to AIDS counts will be used to allocate Ryan White CARE Act moneys to states. California presently receives about $122 million in Ryan White CARE Act Title II funds. Without the implementation of SB 699, California is at risk of losing about $50 million in these federal funds annually. An accelerated HIV reporting effort will assist California in avoiding federal grant reductions.

  According to the department, each local health jurisdiction's HIV/AIDS surveillance program will be responsible for developing a performance measured plan based on state requirements and specific federal guidelines. The department will provide technical training where needed and will monitor the progress of implementation.

- **Emergency Response to Foodborne Illness.** An increase of $2.1 million (General Fund) is proposed to support 9 new positions and to fund two contracts to investigate foodborne illnesses and outbreaks, and enhance the state's capability to test food and environmental samples for investigation purposes. The nine positions would be used to establish three teams of investigators, scientists, laboratorians, and administrative support to provide emergency outbreak investigation capacity for the state and provide support to the 62 local health jurisdictions. Presently there is one team of two investigators and one scientist that is used by the department for investigations of foodborne illness.

  Of the total amount, $670,000 would be used for various contracts. Specifically, $170,000 would be used for communications system operations and $500,000 for research grant awards. The communications system operations would be allocated as follows: (1) $90,000 to contract for satellite imagery, aerial photography and geographic information system consultant to provide mapping for the emergency response teams to conduct environmental investigation or sampling; (2) $50,000 to contract for an early warning message system to send health alerts and recall notices to manufacturers, retailers, local health jurisdictions and other entities; and (3) $30,000 to contract for satellite communications and internet access to provide rapid communications at remote locations during investigations.

The $500,000 in proposed research funds would be used to fund two to four proposals from researchers to: (1) identify sources and vectors for E. coli in the environment and factors that affect contamination of leafy greens; (2) identify mitigation strategies and technologies from planting to retail to reduce the frequency of E. coli in leafy greens; (3) assess the impact of transport practices and conditions on the survival and growth of E. coli on leafy greens; and (4) determine the ability of E. coli and other pathogens to survive composting processes as currently conducted and the potential for multiplication of the surviving pathogens in composted materials. The Administration states that the $500,000 for research would be used to leverage additional matching research funds from the leafy greens industry.

- **Meat and Poultry Recalls—Implementation of SB 611 (Speier), Statutes of 2006.** An augmentation of $389,000 (General Fund) is proposed to support three positions to implement SB 611. Specifically, SB 611 does the following: (1) requires meat or poultry suppliers, distributors, brokers, or processors to immediately notify the DPH and their customers when they have or will have recalled products that meet federal USDA criteria for a Class I or Class II recall; (2) requires these entities to provide the DPH with an electronic list of all their customers that have or will receive any product subject to recall; (3) provides for the DPH to notify local health jurisdictions of the recalled product; and (4) provides for the local health jurisdictions to notify the public.

  The requested positions would coordinate with local health agencies, document and track recalls, and provide recall effectiveness checks on recalled commodities. In addition, these positions would provide training to local health staff and industry representatives regarding proper procedures for the follow-up and evaluation of recalls.

- **Inspections of Low-Acid Canned Food to Prevent Botulism.** An increase of $326,000 (Cannery Inspection Fund) to support three positions is requested to inspect low acid canned food canneries to ensure that these products are produced without botulism toxin contamination. The DPH states that these positions are necessary due to increased workload with the addition of ten new canneries since 2005 and with seven additional cannery license applications underway.

- **Prenatal Screening for Birth Defects—Senate Bill 1555 (Speier), Statutes of 2006.** An increase of $4.6 million (special funds) is provided to fund 6 positions and various activities associated with the implementation of SB 1555 which requires improved prenatal screening and additional activities regarding the causes of birth defects. In addition, an increase of $10 million ($5 million General Fund) is provided in the Medi-Cal Program to fund the cost of this new screen for pregnant women enrolled in Medi-Cal.

- **Local Assistance Funding for the Prenatal Screening Program.** Total expenditures of $47.6 million (Genetic Disease Testing Fund) are proposed for an increase of $15.8 million (Genetic Disease Testing Fund) for 2007-08. This increase is to comply with the statutory requirements of SB 1555, Statutes of 2006, which expanded the screening panel provided under the program. The legislation increased fees by $40 to support the expanded screening panel of prenatal tests.

- **Local Assistance Funding for the Newborn Screening Program.** Total expenditures of $45.9 million (Genetic Disease Testing Fund) are proposed for an increase of $1 million (Genetic Disease Testing Fund) for 2007-08. Screening for Cystic Fibrosis and Biotinidase

Deficiency were added to the program through the Omnibus Health Trailer legislation of 2006 and these expenditures are reflected in the budget. A $17.75 fee increase was instituted on August 1, 2006 to support this expansion. (The fee is now $45.)

- **Reproductive Health and Research—Implementation of SB 1260 (Ortiz), Statutes of 2006.** An increase of $208,000 (General Fund) is provided to fund one position within the department and to contract for services to implement SB 1260 which pertains to the oversight of human embryonic stem cell research in California.

- **Expand the Women, Infants and Children (WIC) Supplemental Nutrition Program's Breastfeeding Peer Counseling Program.** The budget proposes to redirect $426,000 (federal funds) from operating expenses to fund five new positions within the WIC Program to expand the breastfeeding peer counseling program from a pilot project to all 82 WIC agencies statewide. The DPH states that by expanding this program, more women will breast feed their infants and California will be able to maximize the use of an estimated $65 million in surplus federal funds available for expenditure in the state budget year.

- **Child Nutrition and WIC Reauthorization Act.** A redirection of $338,000 (federal funds) from operating expenses is proposed to fund four new positions within the WIC Program to implement new requirements of the federal Child Nutrition and WIC Reauthorization Act. Specifically, these resources would be used to implement a vendor peer group system, competitive price criteria, and allowable reimbursement levels to ensure that the WIC Program pays vendors competitive prices for supplemental WIC foods.

- **Prostate Cancer.** The budget continues $3.5 million (General Fund) for the treatment of Prostate Cancer (through the Improving Access, Counseling and Treatment for Californians with Prostate Cancer—IMPACT) pursuant to Chapter 442 (Ortiz), Statutes of 2005.

- **Stop Tobacco Access to Kids Enforcement (STAKE) in the City of Los Angeles.** The budget proposes to establish five positions within existing resources to conduct compliance checks of tobacco retailers to reduce illegal tobacco product sales to minors in the City of Los Angeles. Federal law requires that California must decrease the ability for minors to purchase tobacco products and maintain a statewide sales rate to minors of less than 20 percent in order to maintain the receipt of federal Substance Abuse and Prevention Treatment Block Grant funds. Up to 40 percent of California's grant funds or about $100 million (federal funds) could be in jeopardy if the statewide sales rate rises beyond the 20 percent.

  Presently California's rate is 13.2 percent. However, the City of Los Angeles has a sales rate to minors of over 35 percent. Therefore, the DPH is proposing to focus additional efforts there to mitigate the high rate.

4270 California Medical Assistance Commission

Background. The California Medical Assistance Commission (CMAC) was established in 1983 to negotiate contracts for specific services under the Medi-Cal Program on behalf of the Department of Health Services. State law and regulations govern the Commission's activities. The Commission is composed of seven voting members appointed to four-year terms.

Major Commission activities include the following:

- Negotiating contracts for Medi-Cal fee-for-service hospital inpatient services statewide;
- Negotiating contracts with private hospitals for supplemental payments under special programs available to contract hospitals under the Medi-Cal Program; and
- Approving contracts for health care services to Medi-Cal enrollees with County Organized Health Care Systems and participating Geographic Managed Care Plans.

Summary of Funding. The budget proposes total expenditures of $2.8 million ($1.4 million General Fund) to support 22 positions and reflects no policy changes for 2007-08.

Summary of Expenditures (dollars in thousands)	2006-07	2007-08	$ Change	% Change
CA Medical Assistance Commission	**$2,720**	**$2,750**	**$30**	**1.1**
Funding Source				
General Fund	$1,376	$1,391	$15	1.1
Reimbursements (from the DHCS)	$1,344	$1,359	$15	1.0
Total Expenditures	**$2,720**	**$2,750**	**$30**	**1.1**

4280 Managed Risk Medical Insurance Board

Background. The Managed Risk Medical Insurance Board (MRMIB) administers programs, which provide health care coverage through private health plans to certain groups without health insurance. The MRMIB administers the: (1) Healthy Families Program; (2) Access for Infants and Mothers (AIM); and (3) Major Risk Medical Insurance Program.

Summary of Funding. The budget proposes total expenditures of almost $1.3 billion ($394.7 million General Fund, $776.5 million Federal Trust Fund and $111.1 million in other funds) for all programs administered by the Managed Risk Medical Insurance Board. This funding level represents a net increase of $82.5 million ($32.6 million General Fund) over the revised current-year. The net increase is due to changes in the Healthy Families Program and Access for Infants and Mothers (AIM) Program as discussed below.

Summary of Expenditures (dollars in thousands)	**2006-07**	**2007-08**	**$ Change**	**% Change**
Program Source				
Major Risk Medical Insurance Program (including state support)	$44,652	$39,808	-$4,844	10.8
Access for Infants & Mother (including state support)	$128,403	$139,677	$11,274	8.8
Healthy Families Program (including state support)	$1,023,688	$1,099,685	$75,997	7.4
County Health Initiative Program	$3,061	$3,168	107	3.5
Totals Expenditures	**$1,199,804**	**$1,282,338**	**$82,534**	**6.9**
Fund Sources				
General Fund	$362,020	$394,669	$32,649	9.0
Federal Funds	$717,402	$776,529	$59,127	8.2
Other Funds	$120,382	$111,140	-$9,242	7.7
Total Funds	**$1,199,804**	**$1,282,338**	**$82,534**	**6.9**

Highlights for the Healthy Families Program

Background. The Healthy Families Program (HFP) provides health, dental and vision coverage through managed care arrangements to children (up to age 19) in families with incomes up to 250 percent of the federal poverty level, who are not eligible for Medi-Cal but meet citizenship or immigration requirements. The benefit package is modeled after that offered to state employees. Eligibility is conducted on an annual basis.

Families pay a monthly premium and copayments, as applicable. The amount paid varies according to a family's income and the health plan selected. Families with incomes between 200 percent and 250 percent of poverty pay $12 to $15 per child per month. The family maximum per month is $45 for these families. Families below 200 percent of poverty pay premiums ranging from $4 to $9 per child per month, up to a family maximum of $27 per month. Families that select a health plan designated as a "community provider plan" receive a $3 discount per child on their monthly premiums.

In addition, infants born to mothers enrolled in the Access for Infants and Mothers (AIM) Program (200 percent of poverty to 300 percent of poverty) are immediately enrolled into the Healthy Families Program and can remain under the HFP until at least the age of two. If these AIM to HFP two-year olds have families that exceed the 250 percent income level, then they would no longer be eligible to remain in the HFP.

Summary of Funding and Enrollment. A total of $1.1 billion ($392.2 million General Fund, $689.5 million Federal Title XXI Funds, $2.2 million Proposition 99 Funds, and $6.4 million in reimbursements) is proposed for the HFP, excluding state administration. This reflects an increase of $75.8 million ($32.5 million General Fund), or 9 percent over the revised current-year.

The budget assumes a total enrollment of 915,598 children as of June 30, 2008, an increase of 73,870 children over the revised current year enrollment level, or a growth rate of 8.8 percent.

This projected enrollment level reflects growth primarily attributable to: (1) restoration of the Certified Application Assistance Program and related outreach and enrollment changes contained in the Budget Act of 2006; and (2) implementation of Senate Bill 437 (Escutia), Statutes of 2006, which provides for a self-certification process at annual eligibility review.

Total enrollment is summarized by population segments below:

- Children in families up to 200 percent of poverty — 607,818 children
- Children in families between 201 to 250 percent of poverty — 193,177 children
- Children in families who are legal immigrants — 15,810 children
- Access for Infants and Mothers (AIM)-Linked Infants — 16,476 children
- New children due to changes in Certified Application Assistance — 21,908 children
- New children due to various modifications in the enrollment process — 47,173 children
- New children due to implementation of SB 437, Statutes of 2006 — 13,237 children

Summary of Governor's Reductions and Augmentations

- **Continues Use of Certified Application Assistance Fees to Increase HFP Enrollment as Contained in the Budget Act of 2006.** The budget provides continued funding for the Certified Application Assistance (CAA) Program by providing a total of $9.1 million ($3.5 million General Fund) within the HFP for CAA payments. Specifically, under the CAA approach, a $50 fee is paid for each person successfully enrolled in the HFP or Medi-Cal, and a $25 fee is paid for each annual eligibility re-determination enrollment. In addition, CAAs receive an additional $10 incentive payment for those applications submitted by them which use the online Health-e-App automated process.

As noted above, it is anticipated that an additional 21,908 children will be enrolled into the HFP due to CAA Program enrollment and outreach activities. An increase of $20.9 million ($7.6 million General Fund) is provided for this caseload increase.

- **Implementation of Senate Bill 437 (Escutia), Statutes of 2006, to Provide Self-Certification.** For the HFP, three adjustments are proposed for implementation. First, an increase of $426,000 ($149,000 General Fund) is proposed to fund four positions to implement: (1) a self-certification process; (2) a presumptive eligibility process; and (3) a gateway from the Women, Infant, and Children's Supplemental Food (WIC) Program to the HFP. Second, an increase of $5.5 million ($2 million General Fund) is provided to fund an increase in caseload of 13,237 children attributable to a January 1, 2008 implementation of SB 437 requirements. Third, an increase of $600,000 ($210,000 General Fund) is provided for systems changes required of the Administrative Vendor to implement the new electronic processes.

- **Rate Increase for Plans Serving Infants.** Payments to health, dental and vision plans serving infants aged 0 to 1 years old whose family income is between 200 percent and 250 percent of poverty was increased from $222.80 per infant per month to $236.22.

- **Continues County Health Initiative Matching (CHIM) Fund Program.** The budget proposes a total of $2.7 million ($943,000 County Health Initiative Matching Fund and $1.8 million federal funds) for the County Health Initiative Matching Fund Program as established through AB 495, Statutes of 2001. This funding level supports a total of 2,074 children in the pilot counties of Santa Clara, San Mateo, San Francisco and Santa Cruz.

  Through this program, counties, local initiatives and County Organized Health Care Systems can submit proposals to receive federal matching funds to provide health insurance coverage to children with family incomes between 250 percent and 300 percent of poverty. These matching funds are unexpended federal Title XXI State Children's Health Insurance Program (S-CHIP) funds which the state presently does not need to support the existing HFP.

- **Continues Funding for Rural Demonstration Projects.** The budget continues funding for the Rural Demonstration Projects at $5.8 million ($2 million Proposition 99 Funds) which is the same amount as provided in the current year.

Highlights for the Access for Infants and Mothers Program

Summary of Funding and Enrollment. The Access for Infants and Mothers (AIM) Program provides health insurance coverage to women during pregnancy and up to 60 days postpartum, and covers their infants up to two years of age. Eligibility is limited to families with incomes from 200 to 300 percent of the poverty level. Subscribers pay premiums equal to 2 percent of the family's annual income plus $100 for the infant's second year of coverage.

As of July 1, 2004, infants born to AIM women are automatically enrolled in the Healthy Families Program (HFP) at birth. Infants born during 2004-05 to AIM mothers who enrolled in AIM prior to July 1, 2005 will remain in AIM through two years of age. Therefore, infant enrollment is declining and shifting to the HFP. This is because infants will age out of the AIM Program at two years old while no new infants will be enrolled after July 1, 2004, unless the

AIM mother was enrolled prior to that date. Therefore, the AIM Program is transitioning to focusing only on pregnant women and 60-day post partum health care coverage.

A total of $138.7 million ($60.7 million Perinatal Insurance Fund and $78 million federal funds) is proposed for AIM in 2007-08. A total of 13,912 women are expected to utilize AIM. This funding level reflects an increase of $11.2 million (total funds) over the revised current-year. This increase is due to caseload increases as well as an increase in the capitation payment made to health plans (from $9,530 per woman per month to $9,541 per woman per month).

Highlights for the Major Risk Medical Insurance Program

Summary of Funding and Enrollment. The Major Risk Medical Insurance Program (MRMIP) provides health care coverage to medically high-risk individuals as well as individuals who have been refused coverage through the health insurance market. The budget proposes total expenditures of $40 million (Major Risk Medical Insurance Fund) to serve about 8,700 individuals. The budget also proposes to redirect $200,000 from direct services to fund two positions to provide more administrative oversight of the program.

4300 Department of Developmental Services

Background. The Department of Developmental Services (DDS) administers services in the community through 21 Regional Centers (RC) and in state Developmental Centers (DC) for persons with developmental disabilities as defined by the provisions of the Lanterman Developmental Disabilities Services Act. To be eligible for services, the disability must begin before the consumer's 18th birthday, be expected to continue indefinitely, present a significant disability and be attributable to certain medical conditions, such as mental retardation, autism, and cerebral palsy.

The purpose of the department is to: (1) ensure that individuals receive needed services; (2) ensure the optimal health, safety, and well-being of individuals served in the developmental disabilities system; (3) ensure that services provided by vendors, Regional Centers and the Developmental Centers are of high quality; (4) ensure the availability of a comprehensive array of appropriate services to meet the needs of consumers and their families; (5) reduce the incidence and severity of developmental disabilities through the provision of appropriate prevention and early intervention service; and (6) ensure the services are cost-effective for the state.

Summary of Funding. The budget proposes total expenditures of $4.3 billion ($2.6 billion General Fund), for a *net* increase of $233 million ($36.5 million General Fund) over the revised current year for the developmental services system. The proposed augmentation represents an increase of 5.7 percent over the revised current year.

In addition, the revised 2006-07 budget proposes a $106.4 million ($71.2 million General Fund) increase from the enacted Budget to address adjustments for employee compensation, caseload and service utilization as well as the effect of the change in the minimum wage.

Of the total amount proposed for 2007-08, $3.6 billion ($2.2 billion General Fund) is for services provided in the community through Regional Centers, $712.3 million ($393.6 million General

Fund) is for support of the state Developmental Centers, and $40.1 million ($26.4 million General Fund) is for state headquarters administration.

Summary of Expenditures (dollars in thousands)	2006-07	2007-08	$ Change	% Change
Program Source				
Community Services Program	$3,314,749	$3,566,049	$251,300	7.6
Developmental Centers	$730,629	$712,268	-$18,361	-2.5
State Administration	$40,084	$40,106	22	0.1
Total, Program Source	**$4,085,462**	**$4,318,423**	**$232,961**	**5.7**
Funding Source				
General Fund	$2,572,111	$2,608,617	$36,506	1.4
Federal Funds	$55,144	$55,411	$267	3.6
Public Transportation Account	$0	$143,993	$143,993	100
Program Development Fund	$2,019	$2,012	-$7	-0.3
Lottery Education Fund	$489	$489	$0	0
Developmental Disabilities Services	$41	$0	-$41	-100
Reimbursements: including Medicaid Waiver, Title XX federal block grant and Targeted Case Management	$1,455,658	$1,507,901		
Total Expenditures	**$4,085,462**	**$4,318,423**	**$232,961**	**5.7**

Highlights for Community-Based Services Provided Through Regional Centers

Background. The DDS contracts with 21 not-for-profit Regional Centers (RCs) which have designated catchment areas for service coverage throughout the state. The RCs are responsible for providing a series of services, including case management, intake and assessment, community resource development, and individual program planning assistance for consumers. RCs also purchase services for consumers and their families from approved vendors and coordinate consumer services with other public entities.

Summary of Funding and Consumer Population. The budget proposes expenditures of $3.6 billion ($2.2 billion General Fund) for community-based services, provided via the RCs, to serve a total of 220,600 consumers living in the community. This funding level includes $501 million for RC operations and $3.1 billion for the purchase of services, including funds for the Early Start Program and habilitation services.

The budget reflects a *net* overall increase of $215.3 million ($48.5 million General Fund), or 7.6 percent, over the revised current year. The General Fund adjustment represents an increase of 2.3 percent. Most of the increase is attributable to: (1) an increase in the utilization of services by consumers; (2) an increase of 8,445 consumers for 2007-08; (3) adjustments for the minimum wage increases which are to occur; and (4) an increase for RC operations.

The DDS notes certain demographics and key factors are appearing in the population, including the following:

- Significant increase in the diagnosed cases of autism, the causes of which are not fully understood.
- Over 57 percent of the RC population is under 22 years of age. It is likely that medical professionals are identifying more developmentally disabled individuals at an earlier age.
- Over 70 percent of consumers now reside in the home of a parent or guardian, as compared to only 64 percent in 1994.
- Decreases continued in the proportion of consumers living in community care settings (i.e., out-of-home placement) and State Developmental Centers. Specifically, about 13 percent of consumers now live in a community care setting compared to 18 percent in 1994.
- Hispanics remain the fastest growing segment of the population increasing from about 24 percent in 1994 to about 32 percent in 2005. Over this same period, the white segment of the population decreased from 49 percent to about 42 percent.
- Improved medical care and technology has increased life expectancies for individuals with developmental disabilities.

Summary of Governor's Key Reductions and Augmentations for Regional Centers

- **Regional Center Population and Service Utilization Update.** An increase of $223.9 million ($42.7 million General Fund) is proposed to support population increases and service utilization needs. A total of 220,600 consumers are estimated for 2007-08, an increase of 8,445 consumers over the revised current-year.

- **Effect of New Minimum Wage Adjustments on Community-Based Programs.** The fiscal effect of the minimum wage adjustments, effective as of January 1, 2007 and January 1, 2008, are estimated to be $26.4 million ($18.3 million General Fund) for the revised current-year, and $71.4 million ($49.8 million General Fund) for 2007-08. These wage adjustments impact entry-level direct care staff that provide services in community care facilities, day and work activity programs, respite care, and supported living arrangements.

- **One-Time Fund Shift to Public Transportation Account to Save General Fund.** The budget proposes to use $144 million in Public Transportation Account funding, on a one-time only basis, in lieu of General Fund support to fund certain transportation services provided through the Regional Centers. These transportation services include those provided by public transit, specialized transportation companies, service providers and families.

- **Proposed Increases in Federal Reimbursements for ICF-DD Facilities.** The budget assumes the receipt of increased federal funds through an amendment to California's Medi-Cal Program to include payment for Day Programs and non-medical transportation services for Regional Center consumers residing in Intermediate Care Facilities for the Developmentally Disabled (ICF-DD facilities). A savings of $44 million General Fund is assumed for this proposal.

- **Agnews Developmental Center Closure Continuation.** The budget proposes a *net* increase of $40.3 million ($32.3 million General Fund) over the revised current-year for both the Regional Center *and* Developmental Center systems to affect the planned closure of Agnews Developmental Center by June 2008. This consists of a decrease of $10.4 million ($5.6 million General Fund) in the Developmental Centers and an increase of $50.7 million ($37.9

million General Fund) for the Regional Centers. It is anticipated that 145 consumers will transition from Agnews into the community. The department has updated their Agnews Closure Plan and has provided it to the Legislature.

- **Continues Expansion of Autistic Spectrum Disorders Initiative as Initiated in the Budget Act of 2006.** An increase of $1.7 million (total funds) is provided for RC Operations to reflect the full year cost of providing additional staff at the RCs for various activities related to serving individuals with a diagnosis of Autism.

Highlights for the State Developmental Centers

Background. The DDS operates five Developmental Centers (DCs)—Agnews, Fairview, Lanterman, Porterville and Sonoma. Porterville is unique in that it provides forensic services in a secure setting. In addition, the department leases Sierra Vista, a 54-bed facility located in Yuba City, and Canyon Springs, a 63-bed facility located in Cathedral City. Both of these facilities provide services to individuals with severe behavioral challenges.

Summary of Funding and Enrollment. The budget proposes expenditures of $712.3 million ($393.6 million General Fund), excluding state support, to serve 2,589 residents who reside in the state DC system. This reflects a caseload decrease of 245 residents or 8.6 percent.

Summary of Governor's Key Reductions and Augmentations for Developmental Centers

- **Developmental Center Resident Population.** A reduction of $30.5 million ($9.6 million General Fund) is proposed to reflect a projected decline of 245 residents in the Developmental Center system (from 2,834 residents in 2006-07 to 2,589 residents in 2007-08).

- **Closure of Agnews Developmental Center.** The DDS provided the Legislature with its updated closure plan on January 10, 2007 as required. This plan has been updated for the past three years in order to provide up-to-date information on the closure of this facility.

  The budget provides an overall net increase to the developmental services system of $40.3 million ($32.3 million General Fund) due to the anticipated transition of 145 consumers from the Agnews Developmental Center into the community. The DC budget decreases by $10.4 million ($5.6 million General Fund), reflecting reduced staffing costs associated with the reduction in the number of Agnews residents. The RC budget is projected to increase by $50.7 million ($37.9 million General Fund) for the costs of providing services to consumers in the community.

- **Porterville Developmental Center Intensive Behavioral Treatment Residence**. An increase of $1.1 million (General Fund) is proposed to fund 5 new positions and equipment expenditures to begin activation of the 96-bed intensive behavioral treatment residence at Porterville as of January 1, 2008.

- **Employee Compensation and Retirement Contributions.** The budget contains an increase of $31.5 million ($18.3 million General Fund) for 2006-07 and $33.1 million ($19.2 million

General Fund) in 2007-08 to reflect revised employee compensation, health and retirement benefits.

4440 Department of Mental Health

Background. The Department of Mental Health (DMH) administers state and federal statutes pertaining to mental health treatment programs. The department directly administers the operation of five State Hospitals—Atascadero, Coalinga, Metropolitan, Napa and Patton, and acute psychiatric programs at the California Medical Facility in Vacaville and the Salinas Valley State Prison. The department provides hospital services to civil commitment patients under contract with County Mental Health Plans (County MHPs) while judicially committed patients are treated solely using state funds.

Though the department sets overall policy for the delivery of mental health services, counties (i.e., County Mental Health Plans) have the primary funding and programmatic responsibility for the majority of local mental health programs as prescribed by State-Local Realignment statutes enacted in 1991 and 1992.

Specifically, counties are responsible for: (1) all mental health treatment services provided to low-income, uninsured individuals with severe mental illness, within the resources made available; (2) implementation of the Mental Health Services Act of 2004; (3) the Medi-Cal Mental Health Managed Care Program; (4) the Early Periodic Screening Diagnosis and Testing (EPSDT) Program for adolescents; and (5) necessary mental health treatment services for individuals enrolled in other programs, including special education, CalWORKs, and Healthy Families.

Governor's Budget. The budget proposes expenditures of $4.8 billion ($1.9 billion General Fund) for mental health services, an increase of $652 million (decrease of $217.2 million General Fund) from the revised current-year budget. It should be noted that the decrease of $217.2 million in General Fund support compared to the revised current-year is due to the large number of increases in the revised current-year budget adjusted after the enactment of the Budget Act of 2006. (These figures exclude proposed capital outlay expenditures.)

Of the total amount, $1.2 billion ($1.1 billion General Fund) and 10,900 positions are proposed to operate the State Hospital system. The remaining $3.4 billion ($762.8 million General Fund) is for community-based mental health programs.

In addition to the above expenditures, the DMH is also proposing capital outlay expenditures of $13.7 million ($6.2 million General Fund and $7.5 million Public Building Construction Fund) for 2007-08. These funds would be used for: (1) the construction of the main kitchen and satellite kitchens at Metropolitan, Napa and Patton state hospitals; (2) a study of the kitchen facilities at Atascadero State Hospital; (3) preliminary plans and working drawings for fencing of secure beds at Metropolitan State Hospital; (4) the replacement of the bulk liquid oxygen storage tank at Napa State Hospital; and (5) upgrade the telecommunications infrastructure at Metropolitan State Hospital.

Further, it is estimated that almost $1.3 billion will be available in the Mental Health Subaccount (County Realignment Funds) which does not directly flow through the state budget. Counties use these revenues to provide necessary mental health care services to Medi-Cal recipients, as well as indigent individuals. The total amount reflects an increase of $90.4 million (County Realignment Funds) or almost 7.4 percent over the anticipated current-year level.

Summary of Expenditures (dollars in thousands)	2006-07	2007-08	$ Change	% Change
Program Source				
Community Services Program	$2,934,452	$3,489,904	$555,452	18.9
Long Term Care Services	$1,105,049	$1,233,828	$128,779	11.6
State Mandated Local Programs	$66,000	0	-66,000	100
Subtotal	**$4,105,501**	**$4,723,732**	**$618,231**	**15**
Capital Outlay for State Hospitals	$42,629	$13,698	-$28,931	-67.8
Total, Program Source	**$4,148,130**	**$4,737,430**	**$589,300**	**14.2**
Funding Source				
General Fund (includes Capital Outlay)	$2,131,741	$1,904,283	-$227,458	-10.7
General Fund, Proposition 98	$13,400	$18,400	$5,000	37.3
Mental Health Services Fund (Proposition 63 of 2004)	$515,826	$1,509,954	$994,128	192
Federal Funds	$63,292	$63,334	42	--
Reimbursements	$1,380,526	$1,232,344	-$148,182	-10.7
Traumatic Brain Injury Fund	$1,211	$1,165	-$46	-3.8
CA State Lottery Education Fund	$95	$95	0	0
Licensing & Certification Fund	$357	$357	0	0
Public Buildings Construction Fund	$41,682	$7,498	-$34,184	-82
Total Department	**$4,148,130**	**$4,737,430**	**$589,300**	**14.2**

Highlights for Community-Based Mental Health Services

Summary of Funding for Community-Based Mental Health Services. The budget proposes expenditures of $3.4 billion ($762.9 million General Fund) for community-based local assistance, including the Mental Health Services Act funding, Medi-Cal Mental Health Managed Care, Early Periodic Screening Diagnosis and Treatment (EPSDT) Program, applicable state support, the Conditional Release Program and related community-based programs.

This reflects a *net* increase of $562 million (total funds) compared to the revised current-year. This *net* increase is primarily due to: (1) an increase of $187.8 million ($92.7 million General Fund) in the EPSDT Program; (2) an increase in expenditures of $994.1 million for services funded using the Mental Health Services Fund; (3) an increase of $9.8 million (total funds) for the Healthy Families Program; (4) an increase of $8.3 million (total funds) for Mental Health Managed Care; (5) an increase of $5 million (General Fund-Proposition 98) for the Early Mental Health Initiative Program; and (6) the elimination of the Integrated Services for Homeless Adults with Serious Mental Illness Program for a reduction of $54.9 million (General Fund).

County Realignment Revenues. It is estimated that $1.318 billion will be available in the Mental Health Subaccount (County Realignment Funds) which does not directly flow through the state budget. The total amount reflects an increase of $90.4 million (County Realignment Funds) or about 7.4 percent over the estimated current-year level.

Realignment revenues deposited in the Mental Health Subaccount, as established by formula outlined in statute, are distributed to counties until each county receives funds equal to the previous year's total. Any realignment revenues above that amount are placed into a growth account. The first claim on the distribution of growth funds is caseload-driven social services programs. Any remaining growth (i.e., "general" growth) in revenues is then distributed according to a formula in statute.

Summary of Governor's Reductions and Augmentations for Community Mental Health

- **Mental Health Services Act (Proposition 63).** In November 2004, voters approved this Proposition to provide a dedicated funding source for public mental health services from the personal income tax revenues of individuals whose adjusted gross income exceeds $1 million annually.

  The total resources available in the Mental Health Services Account are $3 billion for 2006-07 and $4.3 billion for 2007-08. Of this amount, the budget proposes total expenditures of $517.9 million for 2006-07 and $1.5 billion for 2007-08, most of which is for local assistance. A report from the DMH regarding the implementation of the Act is expected shortly. The Mental Health Services Account is a special fund which is continuously appropriated and therefore is not contingent upon an annual Budget Act appropriation.

- **Early and Periodic Screening and Treatment (EPSDT) Program.** The budget proposes a series of adjustments resulting in an increase of $302.7 million (General Fund) for past year deficiencies and an increase of $92.7 million (General Fund) for 2007-08. To-date, the Legislature has not received sufficiently detailed information to adequately evaluate the prior year deficiency requests. These issues will be discussed through the budget process.
- **Governor Proposes to Eliminate the Integrated Services for Homeless Adults with Serious Mental Illness Program.** The Governor proposes to eliminate this program, for a reduction of $54.9 million (General Fund), which provides comprehensive services to individuals who are homeless or at risk of homelessness and have a serious mental illness. The Administration contends that the significant increases in the EPSDT Program, as noted above, allow for the elimination of this program while still meeting the Proposition 63—Mental Health Services Act—maintenance of effort requirements.

- **Adjustments for the Mental Health Managed Care Program.** A total of $462 million ($235.1 million General Fund) is proposed for 2007-08 which reflects an increase of $8.3 million ($4.2 million General Fund) over the current year. Most of this increase is attributable to additional caseload. It should be noted that the Governor did not provide a medical cost-of-living-adjustment as permitted in statute. The last time this adjustment was provided was in the Budget Act of 2000.

- **Adjustments for the Healthy Families Program.** Based on updated actual data, an increase of $9.8 million ($9.2 million in reimbursements from County Realignment Funds and $537,000 General) is proposed to provide supplemental mental health services to children enrolled in the Healthy Families Program as required by existing law. This increase is primarily due to caseload changes.

- **Augmentation for Early Mental Health Initiative.** An increase of $5 million (General Fund-Proposition 98) is proposed to expand the Early Mental Health Initiative to more classrooms.
- **Mental Health Services to Special Education Pupils (AB 3632).** The budget provides $52 million (General Fund) within the DMH appropriation for mental health services provided to children enrolled in special education as directed by AB 3632, Statutes of 1984 and as required by the federal Individuals with Disabilities Education Act (IDEA). Additional funding for related services is contained within the Department of Education's appropriation.
- **Proposed Increase for Personnel and Labor Staff at Headquarters.** An augmentation of $470,000 ($362,000 General Fund) is requested to fund 5.5 positions in the personnel and labor section at DMH headquarters to facilitate administrative issues pertaining to the State Hospitals and Mental Health Services Act program, including all aspects of the personnel process.

Highlights for the State Hospitals

Summary of Funding for the State Hospitals. Total expenditures of $1.2 billion ($1.1 billion General Fund) and 10,900 positions are proposed to operate the five State Hospitals, which serve a projected total population of 6,544 patients, for 2007-08. This reflects an increase of $114.8 million ($88.3 million General Fund) and 1,020 positions from the revised current-year. These proposed increases are primarily due to: (1) implementation of Proposition 83—Jessica's Law—and Senate Bill 1128 (Alquist), Statues of 2006, both pertaining to sex offenders; (2) continued implementation of a settlement agreement with the federal government regarding the Civil Rights for Institutionalized Persons Act (CRIPA); and (3) continued implementation of the *Coleman* Court decision.

Summary of Projected Patient Population at the State Hospitals. The DMH estimates a patient population of 6,544 patients for 2007-08 (as of June 30, 2008) at the five State Hospitals—Napa, Coalinga, Metropolitan, Patton and Atascadero. This represents a net increase of 468 patients, primarily patients designated as Sexually Violent Predators (SVP), over the revised current-year.

Over 91 percent of the patients are admitted under a penal code-related commitment, such as Mentally Disordered Offender, Not Guilty by Reason of Insanity, Incompetent to Stand Trial, and SVP. All penal code-related patients are funded exclusively with General Fund support. The remaining 19 percent of the patients are civil commitments who have been placed at the State Hospitals by the counties as provided for under the Lanterman-Petris-Short Act. County commitments are funded using County Realignment Funds.

The proposed patient caseload for each State Hospital is as follows:

Hospital Summary	**Budget Act of 2006 (6/30/2007)**	***Revised* 2006-07 (6/30/2007)**	**Proposed Patient Growth for 2007-08**	**Proposed 2007-08 Population (6/30/08)**
Atascadero	1,295	1,361	7	1,368
Coalinga	717	922	440	1,362
Metropolitan	667	667	21	688
Napa	1,195	1,195	0	1,195
Patton	1,525	1,525	0	1,525
Vacaville	270	270	0	270
Salinas	136	136	0	136
TOTALS	**5,806**	**6,076 (271 more)**	**468**	**6,544**

Summary of Governor's Reductions and Augmentations for the State Hospitals

- **Significant Patient Population Changes at the State Hospitals.** A net increase of $81.3 million ($80.7 million General Fund) is proposed for various patient population changes. These net adjustments reflect an increase of 922 staff positions and an increase of 468 patients as compared with the revised current-year. The key adjustments are noted below:

  - ✓ **Projected Population Affect of Proposition 83 of 2006--Jessica's Law and SB 1128 (Alquist), Statutes of 2006.** An increase of $24.1 million (General Fund) and 286 staff is proposed due to a projected increase in Sexually Violent Predator (SVP) commitments. It is estimated that these new laws will result in an increase of 440 SVPs. The DMH acknowledges that this estimate is on the upper end of the range (i.e., from 49 to 440 patients annually) and may be adjusted at the May Revision.

  - ✓ **Administration's Technical Error and Proposed Adjustment.** An increase of $14.8 million (General Fund) and 165 positions are requested for the current-year, and an increase of $29.6 million (General Fund) and 331 positions are requested for 2007-08, to correct for an error contained in the Governor's May Revision 2006 budget adjustments. The Administration contends these adjustments are necessary to ensure that the DMH remains in compliance with Level-of-Care staffing ratios required under the Civil Rights for Institutionalized Persons Act (CRIPA).

  - ✓ **Patient Population Adjustments for Baseline Caseload.** A net increase of $1.1 million (total funds) and 17 staff is proposed to accommodate all other patient population adjustments.

  - ✓ **Continued Activation of Coalinga State Hospital.** An increase of $5.6 million (General Fund) and 61 positions are proposed for the continued activation of Coalinga State Hospital, specifically the residential units. Coalinga State Hospital is a 1,500 bed facility located adjacent to Pleasant Valley State Prison which admitted its first patients in September 2005. These 61 positions are all for Non-Level-of-Care and were deferred until 2007-08 due to a slower phase-in. Of the total amount requested, $500,000 is for hiring staff above minimum salaries and for recruitment and retention.

✓ **Operating Expenses for Patient-Driven Needs.** A total increase of $5.2 million (General Fund), including a "price" adjustment to recognize inflation, is proposed for patient-driven operating expenses including food, drugs and laboratory supplies, and outside medical costs.

- **Patton State Hospital Expanded Police Department.** An augmentation of $1.7 million (General Fund) and 30 positions is proposed to implement the second phase of the expansion of the Patton State Hospital police department to address issues regarding safety and security associated with the penal code population.

- **Expanded Scope for Sexually Violent Predator (SVP) Evaluations.** Both SB 1128 (Alquist), Statues of 2006 and Proposition 83 of 2006—Jessica's Law—expand the criteria of a sex offender to qualify as an SVP. As such, the number of referrals from the Department of Corrections and Rehabilitation (CDCR) to the DMH for screening and evaluation for SVPs is proposed to increase substantially. Specifically, the CDCR estimates that 5,528 cases will be referred to the DMH in the first year of implementation for an 800 percent increase over the number of cases presently evaluated. The budget proposes an increase of $15.2 million (General Fund) for the revised current year and $25 million (General Fund) in 2007-08 to account for the increased volume of evaluations to be conducted by private, specialized contractors.

- **Request for Administrative Support for Implementation of Jessica's Law and SB 1128 (Alquist), Statutes of 2006.** A total of $4.8 million (General Fund) is proposed to fund 44 positions at DMH headquarters and 8 positions at Coalinga State Hospital for administrative and support positions to implement these two laws relating to SVPs. Specifically, positions are needed to: (1) process and track new cases; (2) oversee psychiatrist contracts for processing of SVP evaluations; (3) provide assistance to the State-Automated Risk Assessment Tool for Sex Offenders Committee; and (4) develop, implement and evaluate a High Risk Sex Offender treatment program along with the DCDR.

- **Coleman Court Salary Adjustment for Co-Located Positions at Vacaville and Salinas Valley Psychiatric Programs.** An augmentation of $5.5 million (General Fund) is proposed to enable DMH staff to have salary parity with the CA Department of Corrections and Rehabilitation (CDCR) for staff at Salinas Valley and Vacaville Psychiatric Programs that provide treatment to the CDCR inmates. In *Coleman v. Schwarzenegger*, which pertains to access to mental health treatment for inmates, the Special Master has recommended increases in compensation provided to CDCR's mental health clinicians, including psychiatrists, psychologists, psychiatric social workers, occupational and recreational therapists, RNs, LVNs and medical transcribers, as well as supervisors in all these categories. The proposed DMH augmentations would be for these same classifications in the psychiatric programs located within the prisons.

HUMAN SERVICES

4140 Office of Statewide Health Planning and Development

The Office of Statewide Health Planning and Development (OSHPD) develops plans, policies, and programs to assist health care delivery systems. OSHPD has four major program areas: (1) healthcare cost and quality analysis; (2) healthcare workforce development; (3) facility/hospital development, including Cal-Mortgage Loan Insurance; and (4) health care information. The budget proposes funding for OSHPD in 2007-08 of $77.5 million ($5.1 million General Fund), a 4.3 percent increase over the current year.

Summary of Expenditures (dollars in thousands)	2006-07	2007-08	$ Change	% Change
General Fund	$5,436	$5,122	-$314	-5.8
Federal Trust Fund	1,235	1,235	0	0.0
Special Funds	65,316	69,562	4,246	6.5
Reimbursements	2,253	1,538	-715	-31.7
Total	$74,240	$77,457	$3,217	4.3

Highlights

- **Continue Logbook Redesign Project.** The budget requests $2.4 million from the Hospital Building Fund and one position to procure a replacement automation system for its Logbook Database System. This system is used by OSHPD's Facilities Development Division to track health facility construction projects through plan review and construction. Logbook also contains modules to track health facility compliance with SB 1953 and facilitate emergency operations in the event of a natural disaster.

- **Implement Chapter 679, Statutes of 2006 (SB 1661).** The budget requests $1.4 million from the Hospital Building Fund ($1.2 million one-time) and three positions to implement SB 1661, which provided general acute care hospitals that meet specified criteria the opportunity to obtain an additional two-year extension of the deadline by which they have to comply with statutory structural and nonstructural seismic safety requirements. SB 1661 requires OSHPD to develop a needed survey, validate reported hospital data, and publish the information on the OSHPD website. The one-time funding would be used by OSHPD to contract for staff to conduct on-site visits to assist hospitals in completing the surveys.

- **Provide Hospital Fair Pricing Policies.** The budget requests $688,000 from the California Health Planning and Data Fund ($459,000 one-time) to develop an on-line system to implement Chapter 775, Statutes of 2006 (AB 774). AB 774 requires OSHPD to collect from each hospital a copy of its charity care policy, discount payment policy, eligibility procedures, review process and application form for financial assistance, and make that information available to the public.

4170 California Department of Aging

The California Department of Aging (CDA) is the state agency designated to coordinate resources to meet the long term care needs of older individuals, to administer the federal Older Americans Act and the State Older Californians Act, and to work with Area Agencies on Aging to serve elderly and functionally impaired Californians. The department provides services under: (1) Senior Nutrition Services; (2) Senior Community Employment Services; (3) Supportive Services and Centers; and (4) Special Projects. The budget proposes $222 million for 2007-08, a 0.4 percent increase over the current year.

Summary of Expenditures (dollars in thousands)	2006-07	2007-08	$ Change	% Change
General Fund	$61,475	$62,500	$1,025	1.7
State HICAP Fund	2,461	2,456	-5	0.2
Federal Trust Fund	146,911	146,950	39	0.0
Special Deposit Account	1,578	1,560	-18	-1.1
Reimbursements	8,658	8,534	-124	-1.4
Total	$221,083	$222,000	$917	0.4

Highlights

- **Criminal Record Clearances for Long-Term Care Ombudsmen.** The budget requests $293,000 General Fund for CDA to contract with the California Department of Social Services and the 33 Area Agencies on Aging to process criminal record clearances and conduct fingerprinting locally for Long-Term Care Ombudsmen staff and volunteers as mandated by Chapter 902, Statutes of 2006 (SB 1759).

- **Ongoing Reform of Adult Day Health Care (ADHD).** The budget requests $194,000 ($94,000 General Fund) and one position for CDA to provide legal analysis and consultation on complex issues arising in implementation of ADHC program reforms.

4200 Department of Alcohol and Drug Programs

The Department of Alcohol and Drug Programs (DADP) provides statewide leadership and oversight for local alcohol and drug intervention, prevention, detoxification, treatment, and recovery services, including Drug Medi-Cal, Proposition 36 (the Substance Abuse and Crime Prevention Act of 2000, or SACPA), Drug Courts, the Office of Problem Gambling, and the Substance Abuse Offender Treatment Program. The budget proposes $662.8 million

($285.2 million General Fund) for 2007-08, a decrease of $11.5 million ($8.3 million General Fund) or 0.02 percent from the current year.

Summary of Expenditures (dollars in thousands)	2006-07	2007-08	$ Change	% Change
Programs				
Prevention	$80,370	$76,879	-$3,491	-4.3
Treatment and Recovery	544,240	534,463	-9,777	-1.8
Perinatal	49,643	51,445	1,802	3.6
Fund Source				
General Fund	$293,525	$285,154	-$8,371	-2.9
Federal Trust Fund	286,246	282,441	-3,805	-1.3
Special Funds	5,969	6,302	333	5.6
Reimbursements	88,513	88,890	377	0.4
Total	$674,253	$662,787	-$11,466	-1.7

Highlights

- **Reduce Funding for Proposition 36 (SACPA).** The budget proposes reducing funding for SACPA by $60 million General Fund, a 50 percent cut in total funding. Of the $60 million, $35 million would be transferred to the Substance Abuse Offender Treatment Program, bringing total funding to $60 million. The remaining $25 million would be General Fund savings. (For further details, see *Issues* below.)

- **Redirect Funding for Administration of the Substance Abuse Offender Treatment Program (OTP).** The budget requests a redirection of $305,000 General Fund from the existing OTP local assistance appropriation to establish 3.5 limited-term positions in DADP to administer the OTP. The funding transfer and positions would be administratively established in January 2007. The budget also calls for statutory changes to the OTP to modify the drug court requirement, remove the county allocation cap, and eliminate the sunset date.

- **Redirect Funding for Comprehensive Drug Court Implementation (CDCI).** The budget requests a redirection of $341,000 General Fund from the existing CDCI local assistance appropriation to establish four permanent positions in DADP to administer the expanded funding provided in the 2006-07 budget for adult felon drug courts and dependency drug courts. The funding transfer and positions would be administratively established in January 2007.

- **Redirect Funding for Implementation of the California Methamphetamine Initiative (CMI).** The budget requests a redirection of $197,000 General Fund from existing funding provided for the CMI to provide two limited-term positions to DADP to provide state support to the CMI. The 2006-07 budget provided $10 million each year until 2008-09 for a multi-media methamphetamine public education campaign. The requested positions would work with the consultant to develop the media campaign and conduct additional activities to coordinate, support, and disseminate to counties best practices on the prevention and treatment of methamphetamine abuse.

- **Implementation of Licensing and Certification Reforms.** The budget requests $1.2 million and 12.5 positions (4.5 limited-term) in DADP to conduct biennial compliance visits of licensed and/or certified programs, and federally required monitoring reviews and complaint investigations of Drug Medi-Cal providers. The budget also calls for statutory language to permit the collection of fees from all providers to fund these activities and would establish a new fund for the fee revenues. The fees would initially be set at $2,150 biennially (which is what current law requires for-profit providers be charged) and DADP would convene a stakeholder group to determine a permanent fee schedule.
- **Provide Funding for Implementation of Chapter 875, Statutes of 2006 (SB 1453).** The budget requests $519,000 General Fund and six positions (two limited-term) to DADP to license and certify additional drug treatment providers as a result of enactment of SB 1453. SB 1453 requires non-violent prison inmates who participated in drug treatment in prison to enter a 150-day residential aftercare drug treatment program upon their release from prison.
- **Drug Medi-Cal Funding and Caseload.** The budget requests $149 million ($79.7 million General Fund) for the Drug Medi-Cal program. This represents a 8.4 percent increase over revised current year funding, due to increased program caseload. Methadone treatment represents over 60 percent of Drug Medi-Cal expenditures.

Issues

1. **Reduce Funding for Proposition 36 (SACPA).** SACPA, approved by the voters on November 7, 2000, sentences non-violent drug defendants to drug treatment rather than jail or prison. SACPA continuously appropriated $120 million General Fund annually from 2001-02 through 2005-06 to fund county drug treatment services and criminal justice supervision. The 2006-07 budget maintained $120 million General Fund for SACPA and included statutory program reforms including flash incarceration, improved judicial oversight of program participants, and expanded options for offender management. However, these statutory reforms are being legally challenged by the proponents of Proposition 36 and have been suspended by judicial injunction. It is not known when or how this legal challenge will be resolved.

   In response to the suspension of the reforms, the budget proposes to reduce $60 million General Fund for SACPA in 2007-08. Of this $60 million, $35 million is proposed to be redirected to provide an increase to the Substance Abuse Offender Treatment Program (OTP). The remaining $25 million would be one-time General Fund savings. The Administration states that it will revise its budget proposal in the May Revision to move the remaining $60 million in General Fund for Proposition 36 to OTP if the program reforms are not implemented.

   Although DADP is still analyzing the situation, it does not appear at this time that the $25 million General Fund cut to SACPA will result in failure of California to meet its maintenance-of-effort (MOE) requirement in 2007-08 for the federal Substance Abuse Prevention and Treatment (SAPT) Block Grant. Failure to meet the SAPT MOE results in a reduction in federal funding for alcohol and drug treatment.

Although funding for SACPA has been cut in half, the sentencing provisions do not expire. Therefore, counties are still required to make treatment available to eligible offenders directed by the courts to participate in SACPA. Actual SACPA expenditures were $134 million in 2003-04, $143 million in 2004-05, and $150 million in 2005-06. Counties requested a total of $209 million to fully fund SACPA in 2006-07.

4700 Department of Community Services and Development

The Department of Community Services and Development (DCSD) distributes federal and state funding to local entities that provide energy and weatherization assistance and a variety of other community services for low-income households. The budget proposes $169.8 million for 2007-08, essentially the same funding level provided in the current year.

Summary of Expenditures (dollars in thousands)	2006-07	2007-08	$ Change	% Change
Programs				
Energy Programs	$101,241	$101,298	$57	0.0
Community Services	65,421	65,453	32	0.0
Naturalization Services	3,000	3,000	0	0.0
Fund Source				
General Fund	$3,000	$3,000	$0	0.0
Federal Trust Fund	164,540	164,630	90	0.0
Reimbursements	2,122	2,121	-1	0.0
Total	$169,662	$169,751	$89	0.0

Highlights

- **Maintain Naturalization Services Program Funding.** The budget maintains the $1.5 million General Fund augmentation for the Naturalization Services Program provided in 2006-07. Total funding for the program remains at $3 million General Fund.

5160 Department of Rehabilitation

The Department of Rehabilitation assists people with disabilities to obtain and retain employment and maximize their ability to live independently in the community. The department operates the Vocational Rehabilitation (VR) program, funded primarily with federal funds, to provide vocational services to persons with disabilities. Some of these services are provided through cooperative agreements with other state and local agencies (education, mental health, welfare). The department also provides support services for Community Rehabilitation Programs, including independent living centers. The budget proposes total funding of $389.7 million, a 3.3 percent increase over the current year.

Summary of Expenditures (dollars in thousands)	2006-07	2007-08	$ Change	% Change
Programs				
Vocational Rehabilitation Services	$357,260	$370,641	$13,381	3.7
Support of Community Facilities	19,878	19,076	-802	-4.0
Fund Source				
General Fund	$55,659	$57,674	$2,015	3.6
Vending Stand Account	3,478	3,361	-117	-3.4
Mental Health Services Fund	195	214	19	9.7
Federal Trust Fund	307,517	320,568	13,051	4.2
Reimbursements	10,289	7,900	-2389	-23.2
Total	$377,138	$389,717	$12,579	3.3

Highlights

- **California HIV/Auto-Immune Disorder Demonstration Project.** The budget proposes $3.3 million in federal fund authority for DOR to continue to implement this project. The funding is from a federal Social Services Administration (SSA) grant available to states to study various interventions to assist Supplemental Security Income Program beneficiaries in returning to work. The SSA awarded DOR $12 million over five years for implementation of this project. Funding for the project began in the current year.

- **Replace the Field Computer System.** The budget requests $466,000 of increased federal fund authority to begin the initial development and procurement process for a new Electronic Records System to replace the existing field computer system. The DOR has submitted a feasibility study report to the Department of Finance for this project.

5175 Department of Child Support Services

The Department of Child Support Services (DCSS) administers the child support enforcement program operated by local child support agencies. The Department provides state direction to assure that child support funds are collected and distributed to families, including securing child and spousal support, medical support, and determining paternity. The DCSS has responsibility for addressing federal fiscal sanctions related to California's failure to develop adequate automation systems for child support services. The DCSS oversees local program and fiscal operations, administers the federal Title IV-D state plan for securing child support, and monitors state results on federal performance standards.

The budget anticipates total collections of $2.35 billion in the budget year, approximately the same as the current year ($2.36 billion). The department's overall budget expenditures are proposed to decrease by $444.8 million, or 28.7 percent, to $1.1 billion. This decrease is due primarily to the elimination of the federal penalty costs and decreased child support automation costs.

Summary of Expenditures (dollars in thousands)	2006-07	2007-08	$ Change	% Change
General Funds	$584,939	$319,843	-$265,096	-45.3
Federal Funds	723,839	567,455	-156,384	-21.6
Reimbursements	123	123	0	0.0
Child Support Collection Recovery Fund	242,889	219,556	-23,333	-9.6
Total	$1,551,790	$1,106,977	-$444,813	-28.7

Highlights

- **Eliminate Funding for the Federal Penalty for Child Support Automation.** The budget assumes that the final payment of the federal child support automation penalty was made in the current year. The state has been required to pay an increasing penalty each year since 1997 due to the state's failure to implement a single statewide child support automation system. The DCSS is currently developing the California Child Support Automation System (CCSAS) and in September 2006, requested certification from the federal government that this automation system is sufficiently operational to qualify for penalty relief in future federal fiscal years. The budget assumes federal certification of the entire system by 2008-09.

- **Implement the Federal Deficit Reduction Act (DRA).** The budget reflects the following adjustments to reflect implementation of the DRA: (1) $67.6 million ($23 million General Fund) to backfill for lost federal financial participation (FFP) resulting from the elimination of states' ability to use federal performance incentive funds as a match for FFP (which avoids a funding reduction for local child support agencies); (2) $1.8 million General Fund to cover the $25 annual application fee required by the DRA for families who have at least $500 in annual collections and have never received Temporary Assistance for Needy Families; and (3) $27.8 million in reduced collection revenues to reflect the increased payments to custodial parents of the first $50 of the current month's child support payment collected from the non-custodial parent.

- **Reduce CCSAS Project Costs.** The budget reduces funding for the CCSAS project by $107.2 million ($11.2 million General Fund) to reflect cost changes identified in various approved special project reports and budget Control Section 11.0 notification letters to the Legislature. Sufficient resources for DCSS to continue development of CCSAS are provided.

- **Establish a Statewide Employer Data File (EDF).** The budget requests 6.5 new positions and redirection of $249,000 ($93,000 General) of existing DCSS funds to manage and support a centralized, statewide EDF. The EDF would generate wage assignments, employer verifications, and medical support orders and is intended to improve employer data quality, increase collections, and provide a basis for achieving better performance.

- **Establish an Internal Audit Unit Within DCSS.** The budget requests two positions and redirection of $154,000 ($64,000 General Fund) to establish an Internal Audit Unit within CDSS' Office of Audits and Compliance. The Internal Audit Unit would conduct audits and evaluations of DCSS, including internal control reviews, compliance reviews, special investigations, efficiency reviews, and technical assistance and consulting services. This unit is intended to safeguard assets, ensure the reliability of financial records, and improve efficiencies in operations.

- **Continue Suspension of Health Insurance Incentives and Improved Performance Incentives Programs.** The budget proposes trailer bill language to continue the suspension of two programs, the Health Insurance Incentives and the Improved Performance Incentives programs, through 2007-08. The Health Insurance and the Program Improvement Incentive programs were part of the Child Support reform legislation passed in 1999. The Health Insurance Incentives program paid local child support agencies (LCSAs) $50 for each case for which they obtained third-party health insurance coverage or insurance for child support applicants or recipients. The Improved Performance Incentives program provided the ten best performing LCSAs with five percent of the amount they collected on behalf of the state for public assistance payment recoupments. The funding received by the LCSAs from the Improved Performance Incentives program was required to be reinvested back into the Child Support Program. These programs were suspended for five years beginning 2002-03. The Department of Finance notes that LCSAs are required by DCSS regulations to seek third-party health insurance coverage as part of their normal business processes.

Issues

1. **Decisions to be Made in Ongoing Implementation of the Federal Deficit Reduction Act (DRA).** The DRA included a number of provisions that significantly impact the provision of child support services. Some of the provisions are mandatory and already take effect. These are addressed in the 2007-08 budget changes described above. Other provisions are optional and go into effect in October 2008 and October 2009. In addition, some of the mandatory provisions may be implemented in different ways. In short, the state has a number of choices to make on how and whether to implement various provisions of the federal DRA. Different options will have different impacts on families, the state's performance and effectiveness, and the General Fund, and some will require statutory changes. The Legislature will need to weigh in on all these implementation discussions and decisions.

5180 Department of Social Services

The Department of Social Services (DSS) administers a variety of programs with four major goals: (1) provide temporary cash assistance and services to encourage low-income families with children to attain self-sufficiency by moving from welfare to permanent employment; (2) provide social services to elderly, blind, disabled and other adults and children, protecting them from abuse, neglect and exploitation, and helping families stay together and in the community; (3) regulate group homes, preschools, foster care homes, day care and residential care facilities to ensure they meet established health and safety standards; and (4) conduct disability evaluations and provide benefit payments for federal and state programs serving the aged, blind and disabled.

The budget proposes $18.7 billion ($8.9 billion General Fund) for the DSS, an increase of $388.2 million (but a decrease of $329.9 million General Fund). These amounts do not reflect the county share of cost for programs administered by DSS, as county funding is not included in the state Budget Act. However, the table below includes county funding to better reflect total program expenditures. The budget includes a total of 4,580.5 DSS positions, a net increase of 138.5 positions over the current year.

Summary of Expenditures (dollars in thousands)	2006-07	2007-08	$ Change	% Change
Programs				
CalWORKs	$4,985,471	$4,726,289	-$259,182	-5.2
Food Stamps	891,811	918,005	26,194	2.9
IHSS	4,323,610	4,424,916	101,306	2.3
SSI/SSP	3,542,774	3,892,908	350,134	9.9
Foster Care	1,659,575	1,630,471	-29,104	-1.8
Child Welfare Services	2,380,328	2,400,637	20,309	0.9
Title IV-E Waiver Adjustment	17,100	50,270	33,170	194.0
Adoption Assistance	779,041	847,918	68,877	8.8
Kin-GAP	139,726	191,800	52,074	37.3
Other County Services	453,381	459,936	6,555	1.4
Community Care Licensing	112,793	119,915	7,122	6.3
Other State Operations	416,115	426,869	10,754	2.6
Fund Source				
General Fund	$9,206,702	$8,876,793	-$329,909	3.6
Technical Assistance Fund	22,256	21,236	-1,020	-4.6
Employment Training Fund	20,000	35,000	15,000	75.0
Child Support Collections Recovery Fund	12,849	11,760	-1,089	8.5
Other Special Funds	9,667	13,750	4,083	42.2
Federal Trust Fund	6,079,582	6,689,601	610,019	10.0
Reimbursements	3,017,374	3,098,513	81,139	2.7
County Funds (Non-add)	1,333,295	1,343,281	9,986	0.7
Total	$19,701,725	$20,089,934	$388,209	2.0

California Work Opportunity and Responsibility to Kids (CalWORKs) Program

- **Program Description.** CalWORKs provides cash benefits and welfare-to-work services to children and their parents or caretaker relatives who meet specified eligibility criteria including having a family income below the CalWORKs minimum basic standard of adequate care, having less than $2,000 in resources, and having a car valued at $4,650 or less. The average family of three must have an annual net income below $12,782 or 77 percent of the federal poverty level, to be eligible for CalWORKs. Program recipients are required to participate in welfare-to-work activities and perform a minimum of 32 hours of work or work-related activities per week to remain eligible for benefits. Adults have a lifetime limit of five years (60 months) in CalWORKs.

The DSS provides statewide oversight for the program, and counties provide or contract for enrollment, case management, employment training, substance abuse, mental health, and child care functions.

- **Enrollment Summary.** After peaking in March of 1995, CalWORKs enrollment has dropped by 48 percent through 2004. Enrollment has decreased by 33 percent since CalWORKs replaced the former Aid to Families with Dependent Children (AFDC) program in 1998. The caseload decline is due to a combination of demographic trends (such as decreasing birth rates for young women), California's economic expansion, and full implementation of welfare reform. After years of declines, enrollment flattened in 2003-04, and has remained relatively stable since then. Caseload is projected to decrease by 1.5 percent in 2006-07, and increase by 0.1 percent in 2007-08. Average monthly enrollment is estimated to be 468,000 cases in 2007-08.

- **Funding Summary.** CalWORKs is funded through an annual federal Temporary Assistance for Needy Families (TANF) block grant of $3.7 billion, plus $2.7 billion in state and county funds to meet a federal Maintenance of Effort (MOE) requirement. The state's MOE is based on welfare spending in 1994, adjusted downward for achievement of certain work participation goals. Federal law requires states to spend TANF funds on current and former welfare recipients, with limited exceptions. Accordingly, California spends most federal TANF funds on CalWORKs, and directs some TANF and state MOE funding to activities in other programs and departments.

  The budget proposes total TANF/MOE funding of $6.4 billion ($4.7 billion of which will be spent on the CalWORKs program). This constitutes a $259.1 million, or 5.2 percent, decrease in CalWORKs TANF/MOE expenditures from the current year.

CalWORKs Highlights

- **Restrict Safety Net Grants.** The budget proposes to eliminate safety net grants for those children whose parents do not work sufficient hours to meet federal work participation requirements after "timing-out." This proposal would be implemented in November 2007 and would result in General Fund savings of $175.8 million. A statutory change would also be needed to implement this proposal.

  CalWORKs adult recipients are limited to 60 cumulative months of cash assistance. Under current law, children continue to receive cash aid until they are 18 years of age, as long as the family meets CalWORKs eligibility guidelines, regardless of how many hours their parents work after timing-out. Although information is still being gathered on the specific characteristics of the safety net caseload, there are an estimated 100,000 children in over 45,000 families receiving safety net cash assistance in 2006-07. This proposal assumes that only 26 percent of the safety net caseload will meet the work participation requirements and remain eligible for safety net grants. There appears to be no research linking the elimination of safety net grants with increased work participation.

- **Impose Full-Family Sanctions.** The budget proposes to impose a "full-family" sanction whereby a family's entire grant is eliminated for those families with an adult who does not comply with CalWORKs requirements for more than 90 days. This proposal would result in a General Fund cost of $11.4 million because it assumes 70 percent of sanctioned cases would begin working (or participate in an allowable non-work activity) and need child care, as a result of the change. A statutory change would also be needed to implement this proposal.

  Under current law, when an adult fails to meet CalWORKs requirements, the family's grant is reduced by the amount attributable to the adult, but cash aid continues to the children in the family. This "partial-family" sanction is intended to provide a subsistence allowance to preserve the well-being of the children even if their parents have been sanctioned. Research by Mathematica Policy Research, Inc., shows that sanctioned adults face greater barriers to work, such as substance abuse, mental health issues, and education needs. Also existing research does not support the conclusion that more punitive sanctions will result in increased work participation.

  As part of this proposal, the budget will also propose trailer bill language to count the time the adult is sanctioned toward the 60-month lifetime CalWORKs limit. This would be a significant policy change. Under current law, the time while the adult is sanctioned does not count toward the 60-month limit because he or she is not receiving cash aid for himself or herself during the time under sanction.

- **Eliminate Grants for Children of CalWORKs Ineligible Parents.** The budget proposes to eliminate after 60 months grants to children whose parents are not eligible for CalWORKs. These parents are ineligible because they are undocumented non-citizens, drug felons, or fleeing felons. The children include US citizen children of undocumented non-citizens. Under current law, the CalWORKs grants provided to children of ineligible parents are not subject to a time limit. This proposal would be implemented in November 2007 and result in General Fund savings of $160 million. There would be no impact to the state's work participation rate because these adults are already excluded from the work participation calculations.

- **Suspend CalWORKs Cost-of-Living Adjustment (COLA).** The budget proposes to freeze the amount of CalWORKs grants at their current levels resulting in General Fund savings of $140.3 million. The current maximum grant for a family of three is $723 per month. The 4.2 percent COLA that otherwise would have gone into effect on July 1, 2007, would have increased the grant for a family of three by $30 to $753 per month.

- **Implement TANF Reauthorization Provisions of Chapter 75, Statutes of 2006 (AB 1808).** AB 1808, the human services trailer bill to the 2006 Budget Act, contained changes to the CalWORKs program in response to the federal (Deficit Reduction Act) DRA, which reauthorized the TANF program. The TANF reauthorization provisions of the DRA increased the state's work participation rate to 50 percent for all CalWORKs cases, and

90 percent for two-parent cases. The state's work participation rates are currently 23 percent for all cases and 32 percent for two-parent cases. The new work participation rate requirements became effective on October 1, 2006. AB 1808 contained specific provisions intended to result in a renewed focus on work participation leading to an increase in the work participation rate. The budget includes $73.2 million ($1.3 million General Fund) for implementation of the TANF reauthorization provisions in AB 1808, and projects an increase in the work participation rate of about four percent in 2007-08 and six percent in 2008-09.

- **Support for TANF Reauthorization.** The budget requests $2.2 million in federal fund authority and 20 positions for DSS to support data collection for federal work participation in each county, including verification of data and reporting procedures, and to perform oversight and field monitoring of county procedures and case documentation for verification of recipient participation hours at the county level. These positions are intended to improve monitoring and measurement of the performance of counties to meet new federal data quality assurance mandates.

- **Support for AB 1808 Activities.** The budget requests $832,000 in federal fund authority and seven limited-term positions for DSS to hold regular performance outcome measurement meetings with the counties to highlight best practices and identify obstacles to performance, and conduct county peer/state reviews to assist counties in improving work participation rates and implementation of the CalWORKs program. The DSS request also includes $250,000 to fund a contract with a consultant to design, develop, and implement a statewide performance indicator system for the CalWORKs program in the counties. In addition, the budget proposes to use $244,000 in TANF funds to support county welfare departments' participation in the county/state peer reviews. These funds would be used for travel, per diem, and backfilling staff costs.

- **Change Recipient Reporting Frequency.** The budget proposes statutory modifications to the process for redetermining benefit levels for CalWORKs and Food Stamp recipients and a change to the reporting frequency for recipients from quarterly to semi-annually. The change in reporting frequency is expected to simplify the process for recipients and counties. When the trailer bill language is available, a specific assessment of the modifications to the redetermination process can be made. These changes would take effect in 2008-09.

- **Fund Pay for Performance.** The budget proposes $40 million from the 2006-07 TANF reserve to pay counties that meet performance goals for work participation and client income measures in 2007-08. The 2006-07 Budget Act delayed implementation of the Pay for Performance program.

- **Reduce CalWORKs Single Allocation.** The budget reduces $16 million in funding to counties for CalWORKs employment and other services, eligibility determination, and child care in 2007-08. The 2006-07 Budget Act also reduced the single allocation by $40 million.

- **Support Title IV-E Child Welfare Waiver Demonstration Project.** The budget requests $180,000 ($90,000 General Fund) and 1.5 limited-term positions for DSS to support implementation of the Title IV-E Child Welfare Waiver Capped Allocation Project (CAP). The DSS received approval on March 31, 2006 of its Title IV-E waiver request to block grant some of the state's Title IV-E funds and allow participating counties more flexibility in the use of these foster care funds. Participating counties are allowed to use foster care funds to provide front-end services to address the needs of children and families to prevent removing the child from the home, to focus on interventions for children most at-risk of entering foster care, and to reunify families more quickly. There are currently two counties participating, Los Angeles and Alameda. The DSS positions would assist the counties with accounting and other systemic changes required by the waiver.

- **Support to Implement Chapter 672, Statutes of 2006 (SB 1569).** The budget requests $93,000 General Fund and one position to implement SB 1569. SB 1569 extended eligibility for certain public social services to non-citizen victims of human trafficking, domestic violence, and other serious crimes. DSS staff would develop implementing regulations and administer the program.

- **Excess General TANF/Maintenance of Effort (MOE).** The budget proposes TANF/MOE expenditures that are $203 million in excess of the required level in an effort to achieve a greater caseload reduction credit, as allowed by the federal government. These excess TANF/MOE expenditures represent funding for California Department of Education child care and after school programs and are expected to increase California's caseload reduction credit up to five percent.

CalWORKs Issues

1. **Work Participation Requirements of the Deficit Reduction Act (DRA).** The work participation requirements of the DRA, effective October 2006, increase the state's work participation rate to 50 percent for all CalWORKs cases, and 90 percent for two-parent cases. The state's work participation rates are currently 23 percent for all cases and 32 percent for two-parent cases.

   California will face large costs to increase participation in work activities to meet the new requirements, and will still be at great risk of being penalized. The Center for Law and Social Policy estimates that the cost of increasing participation in work activities to meet the new requirements in California could exceed $400 million in 2007, and be in the range of $2 billion for the state for the next five years if the state's caseload does not fall. If the state fails to meet the work participation rate requirements, it is subject to a penalty equal to a five percent reduction in the federal TANF grant, or $185 million. This penalty increases each year, to a maximum of 21 percent. In addition, the state would be required to backfill the federal penalty with General Fund resources, and increase MOE spending by five percent, or $180 million.

   Although the budget includes proposals intended to increase the work participation rate by a total of six percent in 2007-08 and 13 percent in 2008-09, these measures have not been demonstrated to be successful. While increasing the state's work participation rate is critical, it is worth considering whether there are other methods to do so that do not potentially jeopardize the well-being of some of California's most vulnerable children. In addition, the Legislature may wish to consider how counties are doing in implementing the changes in AB 1808, as well as any other already-proven programmatic methods implemented in other states, before making even more changes. In any case, further discussions will be needed in developing alternatives.

2. **Budgeting Methodology for County Operations Funding.** Prior to 2001-02, the state used the Proposed County Administrative Budget (PCAB) process to develop the annual budget for program operations in CalWORKs and other health and human service programs. The PCAB process required counties to project their needs for the coming year and scrutinized counties' assumptions in order to build the statewide CalWORKs budget. Funding increases to reflect the increased cost of doing business have been suspended since 2000-01. As a result of the lack of updated budget methodology, state budget staff have no basis for checking assumptions about the cost to implement program enhancements or the savings associated with program changes.

   In the budget hearing process last spring, the California Welfare Directors Association (CWDA), the California State Association of Counties, and the Urban County Caucus indicated that the budget for county operations no longer represents actual program funding needs and spending abilities across counties. Counties have absorbed more than $568 million (all funds) in increases in utilities, transportation, health care, retirement, and salary increases.

   To begin to address this problem, the Legislature adopted language in the human services trailer bill to the 2006 Budget Act, AB 1808 (Chapter 75, Statutes of 2006), that requires DSS to estimate the costs for county administration of human services programs using county-specific cost factors in the programs' budgeting methodology. The DSS is required to consult with CWDA to develop the survey instrument to gather and the process to incorporate county cost factors in the estimate. Beginning with the 2007-08 May Revision, DSS must identify in its budget documents the estimates developed of the counties' cost of doing business and the difference between that estimate and the amount actually included in the budget.

3. **October 2003 COLA**. From 2000-01 through 2003-04, statute authorized an additional CalWORKs COLA in October of each year so long as Vehicle License Fee (VLF) tax relief was also implemented. Governor Davis suspended the VLF tax relief in June 2003, which triggered the suspension of the October 2003 CalWORKs COLA. However, Governor Schwarzenegger rolled back the VLF tax increase and did not restore funding for the October 2003 COLA. A court ruling in 2004 found that the October 2003 COLA was required, but the Administration is appealing the ruling, and funding for the COLA was not included in the budget. Funding this COLA would result in cumulative costs of approximately $434 million through June 2007 for retroactive payments and $114 million in ongoing annual costs.

Food Stamps Program

- **Program Description.** The Food Stamps program provides food benefits via Electronic Benefit Transfer (EBT) cards to eligible low-income families and individuals. The DSS provides statewide oversight, and counties perform eligibility determination and employment services functions. Families eligible for CalWORKs are automatically eligible for Food

Stamp benefits. Low-income working families and individuals are also eligible for Food Stamp benefits, even if they have not enrolled in the CalWORKs program.

- **Enrollment Summary.** The department estimates that average monthly Food Stamp caseload in 2007-08 will be 2.1 million persons, a 2.3 percent increase over 2006-07. Approximately 68 percent of these beneficiaries are not receiving cash assistance. The proportion of "non-assistance" Food Stamp caseload in the program has grown significantly in recent years, and increased enrollment among non-assistance households has been the driving factor in overall program growth since 2000-01.

- **Funding Summary.** Food Stamp benefits are funded entirely by federal funds. These funds are not included in the state budget, as the U.S. Department of Agriculture provides funding for food directly to beneficiaries via EBT cards. Californians are estimated to receive approximately $2.7 billion in federal Food Stamp benefits in 2007-08. The federal government also funds 50 percent of the program's eligibility determination and administrative costs. The remaining 50 percent is split between the state and counties at a ratio of 69 percent to 31 percent, respectively. The budget anticipates that funding for county activities will be $918.0 million ($335.1 million General Fund), an increase of $26.2 million ($11.6 million General Fund) compared to the current year, due to increasing caseload.

  The state also administers the California Food Assistance Program (CFAP), a state-only food stamp program for legal non-citizens. Total funding for benefits and eligibility costs is estimated to be $27.7 million General Fund in 2007-08, to provide benefits to 23,600 beneficiaries.

Food Stamp Issues

1. **Budgeting Methodology for County Operations Funding.** The county operations costs to administer food stamp programs are included in the overall review of the budgeting methodology for county operations. See a detailed discussion of the issue in the *CalWORKs Issues* section above.

Supplemental Security Income/State Supplementary Program (SSI/SSP) and Cash Assistance Program for Immigrants (CAPI)

- **Program Description.** The SSI/SSP program provides cash grants to persons who are elderly, blind and/or too disabled to work and who meet the program's federal income and resource requirements. Beneficiary grants generally reflect the maximum grant less any offsetting personal income. Individuals who receive SSI/SSP are categorically eligible for the Aged, Blind or Disabled Medi-Cal Program with no share of cost, for the In-Home Supportive Services Program, and may be eligible for other programs designed to support individuals living in the community.

  The SSI/SSP program is administered by the federal Social Security Administration. The Social Security Administration determines eligibility, computes grants, and disburses monthly payments to recipients.

  SSI/SSP grant levels vary based on a recipient's living arrangement, marital status, minor status and whether she or he is aged, blind or disabled. There are over twenty different

SSI/SSP payment standards. Both the federal and state grant payments for SSI/SSP recipients are adjusted for inflation each January through cost-of-living-adjustments (COLAs). Federal law provides an annual SSI COLA based on the Consumer Price Index, and state law provides an annual SSP COLA based on the California Necessities Index. As of January 2007, the maximum grant is $856 per month for an aged or disabled individual living independently and $1,565 per month for an aged or disabled couple living independently.

The CAPI program was established in 1997 to provide cash benefits to aged, blind and disabled legal immigrants who became ineligible for SSI as a result of welfare reform. This state-funded program is overseen by the DSS and administered locally by counties. CAPI grants are $10 less than SSI/SSP grants for individuals and $20 less than SSI/SSP grants for couples.

- **Enrollment Summary.** The budget projects SSI/SSP average monthly enrollment will grow by 2.1 percent, from 1,239,000 in 2006-07 to 1,265,000 in 2007-08. Approximately 8 percent of recipients are under age 18, 49 percent are age 18 to 64, and 43 percent are age 65 and older. CAPI caseload is projected to decrease by 21.9 percent in 2007-08, to 11,415 average monthly recipients.
- **Funding Summary**. SSI/SSP grants have two components: the SSI component, which is federally funded, and the SSP component, which is state funded. Total funding for SSI/SSP is estimated to be $8.7 billion ($3.5 billion General Fund) in 2006-07, and $9.4 billion ($3.9 billion General Fund) in 2007-08. General Fund expenditures are projected to increase by 9.9 percent, to reflect an increase in caseload and funding of the 2008 state and federal COLAs. The federal funds in the SSI portion of the grant are not included in the state budget, as they are federally administered. Total funding for the CAPI program is estimated to be $95.9 million General Fund in 2006-07 and $129.5 million General Fund in 2007-08. In addition to caseload, this 34.1 percent increase is due to the increased caseload resulting from the expiration of the ten-year sponsor deeming period for the first round of CAPI recipients.

SSI/SSP Highlights

- **Fund 2008 Federal SSI and State SSP COLAs.** The budget provides $216.7 million General Fund to fully fund the state SSP COLA of 4.2 percent. The maximum SSI/SSP grant would increase from $856 to $892 for individuals and $1,502 to $1,565 for a couple. The proposal also would pass on $34.4 million in additional federal funds to fully fund the federal 1.2 percent COLA for SSI.

In-Home Supportive Services (IHSS) Program

- **Program Description.** The In-Home Supportive Services (IHSS) program funds personal care services for low-income aged, blind or disabled individuals that are at risk for institutionalization. IHSS services include domestic services (such as meal preparation and laundry), nonmedical personal care services, paramedical services, assistance while traveling to medical appointments, teaching and demonstration directed at reducing the need for support, and other assistance. Services are provided through individual providers hired by the consumer, county contracts with service providers, or through welfare staff. County welfare departments visit consumers in their homes to determine authorized hours of service.

- **Enrollment Summary.** The budget estimates that IHSS caseload will increase to 395,100 in 2007-08, an increase of 5.4 percent over 2006-07 caseload. Approximately half of IHSS consumers are age 65 and older. Persons with developmental disabilities constitute more than 12 percent of the IHSS caseload. Caseload, hours of service by case, and program costs have grown significantly faster than population growth since the mid-1990s.

- **Funding Summary.** The budget proposes $4.4 billion ($1.4 billion General Fund) for the IHSS program in 2007-08. This represents an increase of $101.3 million ($27.7 million General Fund) above the current year funding level, a 2.3 percent increase.

  IHSS costs have steadily increased in recent years. Nonetheless, the average annual cost per individual, approximately $10,300 ($3,399 General Fund), is still less than one-fifth the cost of nursing home placement. The program's growth has been fueled by multiple factors, including the establishment of a state entitlement for personal care services, population increases, and an increase in the proportion of IHSS consumers who are severely disabled, greater utilization of service hours by case, and higher provider rates. In addition, demographic trends and a programmatic shift to support the elderly and persons with disabilities in community settings have increased the number of beneficiaries.

  Wage increases have reportedly contributed to enrollment growth and increases in the numbers of hours used, as higher wages have made it easier for beneficiaries to hire providers and fully utilize authorized hours of care. This is in addition to the direct impact of provider wage increases on IHSS costs. The state has participated in IHSS provider wages above the minimum wage since 1999-2000. In the current year, the state participates in wages and benefits up to $11.10 per hour, although actual wage rates vary by county. Most wage rates are determined by the board of supervisors and public authority that negotiates a contract with providers. The budget proposes changes to the state's participation in provider wages. (For further details, see *IHSS Issue* below.)

IHSS Issues

1. **Limit State Share of the Cost of IHSS.** The budget proposes statutory changes that would limit the state's participation in the cost of IHSS provider wages and benefits to those in effect as of January 10, 2007. Future wage and benefit increases collectively bargained at the local level and those existing agreements that take effect after January 10 would be financed by the counties. Absent this proposal, the projected growth in statewide revenues would have resulted in the state's participation in IHSS wages and benefits increasing from $11.10 per hour to $12.10 per hour in 2007-08. The budget assumes that this proposal will result in cost avoidance of at least $14.1 million in the current year and unknown future cost savings

   The Administration has clarified that any requests from counties for wage increases that were submitted to DSS and approved by January 10 would receive the state share of the wage and benefit increases (regardless of when the increases take effect). Note that notwithstanding this proposal, the budget includes $7.8 million ($2.5 million General Fund) in the current year and $16.5 million ($5.4 million General Fund) in the budget year to fund the recently enacted minimum wage increases.

2. **Budgeting Methodology for County Operations Funding.** The county operations cost to administer the IHSS program is included in the overall review of the budgeting methodology for county operations. See a detailed discussion of the issue in the *CalWORKs Issues* section above.

Children and Family Services Programs

- **Program Descriptions, Caseload, and Funding.** The state administers a continuum of programs and services designed to protect children from abuse, neglect, and exploitation, strengthen families, deliver services to children in out-of-home care, and support the adoption of children. These programs are operated by county welfare departments.

  The budget provides $6 billion ($1.7 billion General Fund) to support children and family services programs. Federal funding for these programs is provided by Social Security Act Titles IV-B, IV-E, XIX, and XX funding, as well as Temporary Assistance for Needy Families (TANF) funds. Title IV-E, the largest funding stream, provides an open-ended entitlement for many children in foster care, adoption, and child welfare programs. Title IV-E funding is limited to children whose families meet the 1996 Aid to Families with Dependent Children (AFDC) income limits. Only a portion of California's foster care, adoptions, and child welfare cases meet these income limits and qualify for matching federal IV-E funding. Counties must determine which cases qualify for IV-E funding under various circumstances, and submit their claims for state and federal review.

  - ✓ **Child Welfare Services (CWS).** This program encompasses a variety of services designed to protect children from abuse, neglect and exploitation. Services include Emergency Assistance, Family Maintenance, Family Reunification, and Permanent Placement. Combined average monthly caseload for these programs is estimated to decline by 2.3 percent in the budget year. Total funding for CWS increased by 0.9 percent, to $2.4 billion ($714 million General Fund).

  - ✓ **Foster Care Program.** The state's Foster Care program provides support payments for children in out-of-home care, including foster homes, foster family agencies, residential treatment for seriously emotionally disturbed children and group homes. Average monthly Foster Care caseload is estimated to decrease by 4.4 percent, to 69,000 children. Continuing the historical trends, the number of children in group homes and foster family agencies is increasing, while the number of children in foster family homes is decreasing. Total funding for Foster Care decreased by 1.8 percent, to $1.6 billion ($449.7 million General Fund. Rates paid to group homes, foster family agencies, and foster family homes have not been raised since 2000-01, or five years.

  - ✓ **Kin-GAP and Enhanced Kin-GAP Programs.** The Kin-GAP program provides support to children in long-term stable placements with relatives. The Enhanced Kin-GAP Program was established in 2006 as a voluntary alternative to the regular Kin-GAP Program. The Enhanced Kin-GAP program is funded at the same rate as the regular program plus a clothing allowance and a specialized care increment as appropriate. The projected average monthly caseload for both programs is 20,789 children, reflecting an increase of 21.5 percent. Total funding for both programs increases by 37.5 percent to $191.8 million ($144.2 million General Fund).

- ✓ **Adoptions Program.** The state's adoptions programs include the Adoptions Assistance Program (AAP) as well as other state and county efforts to improve permanency outcomes for foster children. The AAP provides subsidies to promote permanent placement of children that are older, members of sibling groups, have disabilities, or are otherwise difficult to place. Budget year AAP caseload is expected to be 77,600, an increase of 6.6 percent over current year. Total funding for AAP and other adoptions programs increased by 8.8 percent, to $847.9 million ($380.7 million General Fund).

Children and Family Services Highlights

- **Increase Department of Social Services Staff to Meet Federal Requirements.** The budget requests $1.7 million ($641,000 General Fund and 15 permanent positions, six of which are existing limited-term positions to be converted to permanent, for the DSS to ensure that the state's CWS system is prepared to meet new federal Child and Family Services Review (CFSR) requirements. These staff would provide state leadership and oversight, monitoring compliance, data quality and integrity improvements, and technical assistance to counties for the federal CFSRs. In 2002, California underwent its first review, which resulted in the State's failure to meet federal expectations in 12 of 14 CSFR outcome areas. Although the state is now in compliance with 10 of the 14 outcome areas, we remain subject to over $34.4 million in potential sanctions should we fail to reach all identified targets by April 2007. Any fiscal sanctions will accrue interest until the targets are reached or the next CFSR scheduled for spring or summer of 2008.

- **Maintain Funding for the CWS Outcome Improvement Project (CWSOIP).** The budget proposes to continue providing $98.8 million ($61.4 million General Fund) in 2007-08 to all counties to be spent flexibly on local priorities identified in each county's approved System Improvement Plan pursuant to AB 1808. The System Improvement Plans are required to identify strategies that county welfare and probation departments agencies will use to improve outcomes for children and families.

- **Increase Funding for Enhanced Kin-GAP Program.** The budget includes $93.7 million ($71.2 million General Fund) in increased costs to reflect the transfer of additional cases to the Enhanced Kin-GAP Program.

- **Additional Federal Promoting Safe and Stable Families (PSSF) Grant Funds.** The budget reflects an increase of $4.3 million federal PSSF funds for 2007-08 to support monthly caseworker visits.

- **Remove Funding for Title IV-E Foster Care Disallowance Backfill.** The budget removes $8.4 million General Fund to reflect the final amount needed to backfill for a $33.8 million Title IV-E federal funding disallowance for Foster Care for calendar year 2003.

- **New Funding for Tribal-State Title IV-E Agreements.** The budget requests an increase of $150,000 General Fund for 2007-08 to provide start-up funds for three years to allow the pass-through of $215,000 Title IV-E funds to tribes seeking to provide their own child welfare services.

- **Oversee the Title IV-E Waiver.** The budget requests $180,000 ($90,000 General Fund) and 1.5 limited-term positions for DSS to conduct administrative oversight and evaluation activities related to the Title IV-E Child Welfare Waiver Demonstration "Capped Allocation" Project.

- **Increase Costs for *Rosales v. Thompson*.** The budget provides $795,000 General Fund and reflects $1.2 million in county costs to reflect increased foster care costs resulting from the reversal of the *Rosales v. Thompson* court decision. The *Rosales* decision broadened eligibility and extended federal Title IV-E Foster Care benefits to relatives caring for foster children who were previously eligible only for CalWORKs benefits at significantly lower rates. The federal Deficit Reduction Act clarified federal statute, in effect reversing the expanded eligibility criteria.

- **Provide Resources to Implement Chapter 386, Statutes of 2006 (AB 2488).** The budget requests $274,000 ($187,000 General Fund) and three permanent positions for DSS and $1.8 million ($1.0 million General Fund) for county administration in 2007-08 to implement AB 2488. AB 2488 modified the existing Mutual Consent Program by lowering the age of consent of disclosure of contact information between adoptees and their siblings from 21 years to 18 years of age. AB 2488 also allows the court to require that a California licensed adoption agency actively search on behalf of one sibling for a sibling who has not already consented to disclosure. The resources provided would enable the DSS and county welfare departments to provide confidential intermediary services to siblings and adoptees.

- **Provide Resources to Implement Chapter 809, Statutes of 2006 (SB 1393).** The budget requests $381,000 General Fund and three permanent positions to implement SB 1393. SB 1393 provides for an expedited process with fewer requirements for re-adoption in California of a foreign-born child adopted by California residents in the child's country if the DSS has certified that the laws of the foreign county where the child was originally adopted meet or exceed California's adoption laws and mandates. The additional staff would track and process requests for jurisdictions within the countries, promulgate regulations, and provide ongoing technical assistance.

- **Provide Resources to Implement Chapter 754, Statutes of 2006 (SB 1758).** The budget requests 237,000 General Fund and two permanent positions for DSS to implement SB 1758. SB 1758 requires DSS to establish an Adoption Facilitator Registry.

- **Maintain Dependency Drug Court Funding.** The budget proposes to continue providing $4.8 million General Fund for the county Dependency Drug Court pilots and the cost-benefit evaluation in 2007-08. The budget also proposes to shift this funding from DSS' budget to the Department of Alcohol and Drug Programs (DADP) in 2007-08. The funding for Dependency Drug Courts is currently provided to DADP through an interagency agreement with DSS.

Children and Family Services Issues

1. **Alternative Funding for CWS.** The human services trailer bill to the 2006 Budget Act, AB 1808 (Chapter 75, Statutes of 2006), directed DSS to work with the County Welfare Directors Association, legislative staff, and members of organizations that represent social workers to develop a methodology for budgeting the CWS program to meet specified program requirements and outcomes. This new funding methodology is to be presented to the Legislature on February 1, 2006 and is intended to be implemented in the 2007-08 fiscal year.

2. **Budgeting Methodology for County Operations Funding.** In addition to the new CWS budgeting methodology under development, CWS administrative funding is undergoing review as part of the examination of the budgeting methodology for county operations funding. See a detailed discussion of the issue in the CalWORKs *Issues* section above.

Community Care Licensing

The Community Care Licensing (CCL) Division of DSS licenses over 85,000 community care facilities across the state. These facilities have the capacity to serve over 1.4 million clients requiring different types of care and supervision. Licensees include childcare facilities, certified foster family homes, foster family agencies, residential care facilities for the elderly, residential care facilities for the chronically ill, adoption agencies, transitional housing, and adult day care. Licensing activities are primarily carried out by state staff, although some counties are responsible for licensing child care and foster family homes. CCL staff currently visit a randomly selected 20 percent of facilities annually, and visit all facilities no less than once every five years. At-risk facilities are visited at least annually.

The budget includes $119.9 million ($38.2 million General Fund) and 1,187.6 positions for CCL in 2007-08. This represents a 6.3 percent increase over the current year funding of $112.8 million ($32.3 million General Fund) and 1,114.1 positions. Approximately 15 percent of funding is for county licensing activities, and the remaining funding is for state licensing activities.

Community Care Licensing Highlights

- **Licensing Reform Automation Project.** The budget requests $1.7 million ($1.5 million General Fund) and ten positions for DSS to begin a project to upgrade its information technology systems supporting the licensing program. Although already identified as a need in DSS' IT Strategic Plan, this proposal responds to findings of deficiencies in enforcement and inadequate program oversight and accountability in an audit of DSS' efforts to rebuild the child care program completed in May 2006 by the Bureau of State Audits (BSA). This IT project is expected to take two years to complete.

- **Increase Facility Inspections and Follow-up Visits.** The budget requests $4.9 million ($4.6 million General Fund) and 65 positions. Of the 65 positions, 58.5 would be used to increase from 20 percent to 30 percent the number of facilities that are randomly selected for annual visits to comply with the statutory requirement that the number of facilities visited annually be increased by ten percent if total citations issued by DSS exceed the previous year's total by ten percent. The remaining 6.5 positions would be used to address DSS follow-up enforcement deficiencies identified in the May 2006 BSA audit.

LABOR

0559 Secretary for Labor and Workforce Development Agency

The Labor and Workforce Development Agency brings together the departments, boards, and commissions that train, protect, and provide benefits, such as unemployment insurance and workers' compensation, to employees and employers of California. The Labor and Workforce Development Agency includes the Department of Industrial Relations, the Employment Development Department, the Agricultural Labor Relations Board (the Agriculture Labor Relations Board is heard by Senate Budget Subcommittee #2 on Resources, Environmental Protection and Energy), and the Workforce Investment Board. The Agency provides policy and enforcement coordination of California's labor and employment programs and policy and budget direction for the departments and boards.

The Governor proposes $2.2 million (reimbursements and special funds) and 14.2 positions for the Office of the Secretary, a decrease of $135,000 with no change in positions. The Administration did not submit any budget change proposals for the Agency.

7100 Employment Development Department

The Employment Development Department (EDD) administers services to employers, employees, and job seekers. The EDD pays benefits to eligible workers who become unemployed or disabled, collects payroll taxes, administers the Family Leave Program, and assists job seekers by providing employment and training programs. In addition, the EDD collects and provides comprehensive labor market information concerning California's workforce.

The Governor proposes $10.8 billion ($44.3 million General Fund) and 8,739.4 positions, a decrease of $332.0 million (3.0 percent) and 242.8 positions. However, the current-year benefit estimates include a 10 percent or $880 million "buffer"; no buffer is included for 2007-08.

Expenditure by Program (dollars in thousands)	2006-07	2007-08	$ Change	% Change
Employment & Employment Services	$181,852	$153,065	-$28,787	-15.8
Tax Collections & Benefit Payment				
State Operations	632,749	633,923	1,174	0.2
Disability Insurance Payments*	4,427,751	4,306,570	-121,181	-2.7
Unemployment Insurance Payments*	5,176,629	5,023,681	-152,948	-3.0
School Employees Payments*	87,170	79,181	-7,989	-9.2
Unemployment Insurance Appeals Board	73,008	74,533	1,525	2.1
Administration	54,971	57,259	2,288	4.2
Distributed Administration	(51,194)	(51,194)	0	0.0
Employment Training Panel	53,711	53,939	228	0.4
Workforce Investment Act	446,761	420,491	-26,270	-5.9
National Emergency Grant Program	45,000	45,000	0	0.0
Total	$11,128,408	$10,796,448	-$331,960	-3.0

* 2006-07 amounts include a 10-percent buffer above the forecast

Major Budget Proposals

Benefit Program Adjustments. The EDD budget reflects adjusted benefit expenditures in the current year and budget year. The adjustments are a result of recent benefit claim levels, and of the October 2006 forecast of future claims. The level of anticipated benefits for the Disability Insurance, Unemployment Insurance, and School Employee Programs are included in the above table. The Department will submit a revised forecast for benefit expenditures as part of the May Revision.

Job Services Program Cut. The Governor proposes a reduction of $27.1 million (EDD Contingent Fund) and 271.0 positions to the Job Services Program. This proposal would benefit the General Fund, because the $27.1 million saved would be transferred to the General Fund. Job Services would continue at a reduced level utilizing $153.1 million in federal funds and reimbursements.

Tax Sharing Ratio Change. The EDD collects employer-based taxes including Unemployment Insurance, Disability Insurance, Employment Training Fund, and personal income tax withholdings (General Fund). The Administration proposes to realign EDD’s funding so that each fund would pay its “fair share” of tax collection costs. This proposal would result in a net-zero change in EDD expenditures, but would increase General Fund costs by $13.5 million (and reduce the cost to other funds by the same amount).

Employment Training Panel. The proposed budget continues the practice of transferring Employment Training Panel (ETP) funds to the Department of Social Services for CalWORKs employment training programs. This transfer produces a General Fund savings of the same amount. This year’s CalWORKs transfer is proposed at $35 million – up by $15 million. The amount of ETP funds used for CalWORKs has varied over the years, but last year the Legislature reduced the amount by $12.9 million, to $20.0 million. Despite the shift to CalWORKs, sufficient funds are available to maintain the current level of Employment Training Panel expenditures – about $54 million.

7120 California Workforce Investment Board

The federal Workforce Investment Act of 1998 established new requirements for employment and training programs for adults, youth, and dislocated workers, and resulted in the creation of the California Workforce Investment Board. The Board is tasked with transforming workforce development programs into an integrated workforce investment system that can better respond to the employment, training, and education needs of its customers.

The Governor proposes $4.4 million (federal funds and reimbursements) and 20.9 positions for the Board's budget – a decrease of $428,000 and no change in positions. The reduction is due to baseline reductions - the Administration did not submit any budget change proposals for the Board.

7350 Department of Industrial Relations

The objective of the Department of Industrial Relations (DIR) is to protect the workforce in California; improve working conditions; and advance opportunities for profitable employment. The Department enforces workers' compensation insurance laws and adjudicates workers' compensation insurance claims; works to prevent industrial injuries and deaths; promulgates and enforces laws relating to wages, hours, and conditions of employment; promotes apprenticeship and other on-the-job training; assists in negotiations with parties in dispute when a work stoppage is threatened; and analyzes and disseminates statistics which measure the condition of labor in the state.

The Governor proposes $384.5 million ($68.2 million General Fund) and 2,739.0 positions, an increase of $21.8 million (6.0 percent) and 31.9 positions.

Expenditures by Program (dollars in thousands)	2006-07	2007-08	$ Change	% Change
Self-Insurance Plans	$3,731	$3,778	$47	1.3
Mediation/Conciliation	2,358	2,359	1	0.0
Workers' Compensation	166,474	179,024	12,550	7.5
Commission on Health and Safety and Workers' Compensation	3,132	3,080	-52	-1.7
Division of Occupational Safety and Health	89,509	96,652	7,143	8.0
Division of Labor Standards Enforcement	48,909	50,382	1,473	3.0
Division of Apprenticeship Standards	10,478	11,207	729	7.0
Division of Labor Statistics and Research	4,008	3,904	-104	-2.6
Claims, Wages, and Contingencies	34,132	34,132	0	0.0
Administration	30,205	31,366	1,161	3.8
Distributed Administration	(30,205)	(31,366)	-1,161	0.0
Total	$362,731	$384,518	$21,787	6.0

Major Budget Proposals

Elevator Program, Plan Checking Unit Augmentation. The Governor proposes to augment the Department's budget by $1.9 million (special fund) and 16.0 positions to establish an elevator plan checking unit. This augmentation would allow DIR to comply with the requirements of Labor Code Section 7301.1, which mandates that on or after June 30, 2003, no conveyances are to be erected, constructed, installed, or materially altered unless a pre-work permit was obtained from the Division of Occupational Safety and Health.

Re-Fund the Industrial Welfare Commission. The Governor requests an augmentation of $449,000 (General Fund) and 3.0 positions to restore funding and staff to the Industrial Welfare Commission (IWC). In 2004-05, the Legislature eliminated all funding for the IWC; however, the statutory responsibilities of the IWC were not amended. Among other responsibilities, the IWC is required to conduct a full review of the adequacy of the minimum wage at least once every two years. The Administration indicates the General Fund cost of this proposal is offset by General Fund savings in another DIR budget proposal.

Additional Funding for the Electronic Adjudication Management System. The Governor requests an increase of $11.8 million (special fund) in multi-year funding for the Electronic Adjudication Management System (EAMS). The project was originally approved by the Legislature in 2004-05 with an anticipated cost of $24.0 million. In October 2006, the Administration submitted a Section 11.00 letter to the Joint Legislative Budget Committee indicating a new project cost of $35.8 million; and DIR has since entered into a contract with a vendor to implement the system. According to the Administration, the system will provide for a cost-efficient electronic adjudication management system to improve services provided by the Division of Workers' Compensation and the Workers' Compensation Appeals Board.

VETERANS AFFAIRS

8950 Department of Veterans Affairs

The Department of Veterans Affairs (CDVA) has three primary objectives: (1) provide comprehensive assistance to veterans and dependents of veterans in obtaining benefits and rights to which they may be entitled under state and federal laws; (2) afford California veterans the opportunity to become homeowners through loans available to them under the Cal-Vet farm and home loan program; and (3) provide support for California veterans' homes where eligible veterans may live in a retirement community and where nursing care and hospitalization are provided. The department operates veterans' homes in Yountville (Napa County), Barstow (San Bernardino County), and Chula Vista (San Diego County). The homes provide medical care, rehabilitation, and residential home services. Using $50 million in general obligation bonds available through Proposition 16 (passed by the voters in 2000), $162 million in lease-revenue bonds (most recently amended by AB 1077 [Chapter 824, Statutes of 2004]), and $207 million in U.S. Department of Veterans Affairs federal funds, the CDVA expects to open new veterans' homes in Ventura (opening in 2008), Lancaster (2008), West Los Angeles (2009), Fresno and Redding (both opening after 2009).

The Governor's budget funds 1,605 positions (including 52 new positions) and budget expenditures as follows:

If implemented as proposed, General Fund support for the CDVA will balloon from $67.3 million in 2005-06 to a proposed $112.3 million in the budget year—and increase of 67 percent over two years.

Summary of Expenditures (dollars in thousands)	2006-07	2007-08	$ Change	% Change
Fund Source				
General Fund	$87,957	$112,348	$24,391	27.7%
Veterans' Farm and Homebuilding Fund of 1943	182,555	180,549	-2,006	-1.1
Federal Trust Fund	23,395	28,017	4,622	19.8
Reimbursements	28,152	27,421	-731	-2.6
Other Funds	1,109	1,004	-105	-9.5
Total, Fund Source	$323,168	$349,339	$26,171	8.1%

Highlights

Funding for Veterans' Homes. The Governor proposes a four percent increase in funding for the three active Veterans' Homes, from $124.2 million in the current year to $129.5 million in the budget year.

Home *(dollars in thousands)*	**2006-07 Funding**	**Proposed 2007-08 Funding**
Yountville	$82,333	$85,172
Barstow	15,535	18,303
Chula Vista	26,348	26,020
TOTALS	$124,216	$129,495

Budget Authority Adjustment for Failed Intermediate Care Facility (ICF) Conversion at Chula Vista Veterans' Home. The Governor's Budget includes a reduction in Federal Fund and General Fund reimbursements by $2 million and an increase in the General Fund contribution by $940,000 to reflect an unsuccessful effort to convert the Chula Vista Residential Care for the Elderly Facility to an ICF. Eight positions will be eliminated pursuant to this adjustment. The Department sought and received approval to upgrade their care facility. However, during the conversion process the CDVA realized that the project was not financially or physically feasible due to fire and building code regulations, the need for revised architectural drawings, and unforeseen project costs.

Information Technology Infrastructure Upgrade. The Administration requests $6.5 million General Fund and one two-year limited term position to upgrade the department's key information technology hardware and software infrastructure. The department asserts that they have made little investment in IT infrastructure during the last five years.

Enterprise Wide Veterans Homes Information System. The budget includes 22 positions and $10.3 million to procure and implement a new Veterans Home Information System (VHIS) for the veterans' homes. The proposed system is intended to conform to federal regulations on data reliability and transferability. This enterprise solution is intended to address the IT needs of as-yet unbuilt homes and resolve contract issues with the current information system provider, Meditech.

Personal Services Contracts Adjustment. The Administration requests $71,000 General Fund to increase the personal services budgets at the Chula Vista Home and Barstow Home in order to conform with recently negotiated labor agreements. Statute requires that all personal services contracts include employee compensation valued at no less than 85 percent of the state employer cost of providing comparable wages and benefits to state employees.

Veterans Claims Representation at District Offices. The Administration seeks $180,000 General Fund and authority to convert two expiring limited term positions to permanent positions. The two Veteran Claim Representative positions were established through a 2005-06 Budget Change Proposal with direction to increase applications for benefits and reach out to underserved populations.

Reopen 40 Beds at Barstow Veterans Home. The Administration requests to reopen 20 beds at the skilled nursing facility at the Barstow Veterans Home with 19 new positions and $2.3 million ($2.1 million General Fund). The 20 remaining beds will open in 2008-09 budget year and ongoing costs to operate the 40 bed facility will be $4.5 million (including $2.9 million General Fund) and 54 positions. The CDVA believes opening this skilled nursing facility at Barstow will provide a better range of care to veterans and prevent the relocation of residents who require that particular level of care.

Position Funding Alignment. The budget includes 25 positions and $2.8 million General Fund to reflect the realignment over time of positions originally assigned to the Farm and Home Program—and funded by sources other than General Fund—but reassigned to other General Fund supported programs such as the Farm and Home Program workload subsidy. The department was directed in current year budget bill language to provide a budget change proposal and workload justification for all 25 positions.

Greater Los Angeles/Ventura County (GLAVC) Veterans Home Start-Up Costs. The budget includes 8 positions and $995,000 General Fund for the construction and pre-activation phases of the GLAVC veterans homes. The positions will oversee construction and business operations and ensure the veterans homes are compliant with federal, state, and local laws and regulations. The Department anticipates the first GLAVC home will open in December 2008.

Equipment Replacement Program. The budget includes $3.2 million General Fund for ongoing maintenance and equipment replacement at the veterans homes and headquarters building. The average age of the homes' major, minor, and patient equipment is between 5 and 19 years old. The CDVA believes this appropriation is necessary to correct existing equipment deficiencies.

Baseline Adjustment for Operating Expense and Equipment. The budget includes an operating expense increase of $1.5 million General Fund (ongoing) for increased costs of pharmaceuticals, outside medical services, central supply items, supplemental medical insurance, natural gas, and petroleum purchases.